



**THE CENTRAL AMERICAN ISTHMUS: ECONOMIC EVOLUTION
DURING 2006 AND PROSPECTS FOR 2007**

(Final evaluation)

INDEX

	<u>Page</u>
1. General trends of the recent evolution.....	1
2. The evolution of the external sector	2
3. Economic policy	10
a) Fiscal policy	10
b) Monetary and exchange-rate policy	11
c) Trade policy.....	16
4. Production, prices, remunerations, and employment.....	18
a) Economic activity.....	18
b) Prices, remunerations, and employment	21
5. Prospects for 2007	22
<u>Statistical Annex</u>	25

Index of Tables

Table

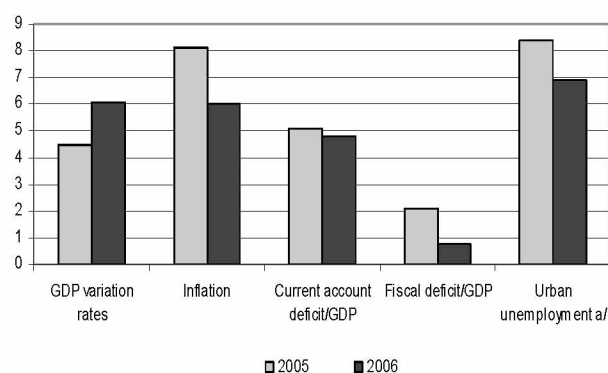
A-1 Main indicators, 2000-2006.....	27
A-2 Main economic indicators, 2000-2006	29
A-3 Main economic indicators, 2000-2006	30
A-4 Trade indicators of goods, fob, 2000-2006.....	31
A-5 Balance of payment indicators, 2000-2006	32
A-6 Public debt indicators, 2000-2006	33
A-7 Interregional exports, 2000-2006.....	34
A-8 Evolution of the value added of in-bond assembly plant activity and free trade zones, 2000-2006.....	35
A-9 Foreign travel account balance, 2000-2006.....	36
A-10 Garment export to the United States, 2000-2006	37
A-11 Foreign trade of fob goods with Mexico, 2003-2006	38
A-12 Central Government indicators, 2000-2006	39
A-13 Credit indicators, 2000-2006	40
A-14 Nominal interest rates, 2005-2006.....	41
A-15 Price indicators, 2000-2006	42
A-16 Nominal and real exchange rate, 2000-2006	43

THE CENTRAL AMERICAN ISTHMUS: ECONOMIC EVOLUTION DURING 2006 AND PROSPECTS FOR 2007

1. General trends of the recent evolution

Economic activity in the Central American Isthmus in 2006 expanded 6.1%, one and a half percentage points more than in 2005 (4.6%) and half a point more than the average for Latin America and the Caribbean (5.6%).¹ Such a growth rate has not been seen since 1992, when the variation was 6.6%, and it is the second highest growth rate in more than 30 years. In terms of GDP per capita, growth was 4%. This expansionary phase of the economic cycle has lasted for four years now and has been closely linked to the evolution of the United States economy. Even though almost all of the economic indicators showed progress, to decisively improve the social situation in these countries, sustained growth at similar rates would be needed for several years.

Graph 1
THE CENTRAL AMERICAN ISTHMUS: MAIN
MACROECONOMIC INDICATORS IN
2005 AND 2006



Source: ECLAC, based on official figures.

a/ Calculated with data from five countries; there is no information for Guatemala.

Macroeconomic indicators recorded clear improvements, lessening external vulnerability...

Data available from five countries show that high growth coincided with a noticeable decline in the urban unemployment rate with the average falling from 8.4% in 2005 to 6.9% in 2006 (see graph 1). This decrease was pronounced in four

countries, greater than a percentage point. The average inflation rate (6%) in 2006 is favourable compared to the 8.1% variation obtained in 2005. This is a significant achievement in a context where international prices of petroleum and derivatives continued to rise, following the trend of previous years. The deficit in the current account of the balance of payments fell again, from the equivalent of 5.1% of GDP to 4.8%. The considerable fiscal deficit measured as weighted average also dropped, from 2% of GDP to 1%, and public debt decreased (from 47% of GDP to 42.2%), contributing to the reduction of external vulnerability in the economies of the Isthmus.

... in an external environment that continued to be, in general, favourable.

Among positive factors, foreign demand figured highly, especially from the United States, the sub-region's most important trade partner, despite its slight slowdown compared with 2005. The increasing amount of family remittances, this time at around 10% of GDP, helped in mitigating the considerable trade deficit. The net transfer of resources was positive, equivalent to 4.5% of GDP, and slightly greater than

in 2005 (3.9%). The financial environment remained calm, characterized by abundant global liquidity. In these general conditions, the apparent end of the cycle of hikes in interest rates in the United States at a relatively low level was decisive. As a result, real interest rates are lower than in the past, when the FED tried to control inflation. Furthermore, high prices of raw materials, petroleum being especially noteworthy, adversely affected the economies of the Isthmus, fomenting further deterioration to terms of trade.

Economic policies remained unchanged, despite new governments in three countries ...

The mix of macroeconomic policies maintained the same general features of the previous three years. So far, the new governments (Honduras, Costa Rica, and Nicaragua) have not changed the basic orientation of macroeconomic policy, although in Nicaragua a change of priorities in the near future could occur. In fact, less importance is expected to be placed on macroeconomic stability and greater importance on higher growth and a more dynamic creation of jobs. As a general rule, in 2006 discipline and belt-tightening continued to be fiscal priority. In this context, monetary policy was successful in lowering inflation rate without having to sacrifice production growth too much. With the help of the stabilization of international oil prices in the second half of the year, the governments

obtained positive results in both objectives, which is a rare achievement in developing countries. To that end, the decreased impact of imported inflation through an almost widespread appreciation of regional currencies against the United States dollar also helped.

Modest slowdown in growth predicted for 2007

The situation in 2007 is likely to be less favourable for growth. The United States economy could face a greater slowdown than predicted if it does not achieve what is known as a “smooth landing.” Despite this, the dynamism of the Asian economies, and solid growth of the European economies and petroleum exports, should continue to drive the world economy and international trade. Global liquidity will continue to be relatively abundant, but slightly less available for developing countries due to a change in the preferences of investors towards less risky assets. Petroleum prices will remain high, while prices of other raw materials should drop moderately. The main risk for the world economy continues to be a disorderly adjustment of global imbalances, but it now seems that the weakening of real estate markets will play a more prominent role, at least in the United States. If the aforementioned risks do not substantially aggravate the economic situation, the economies of the Isthmus could see an average growth of 6% in 2007.

2. The evolution of the external sector

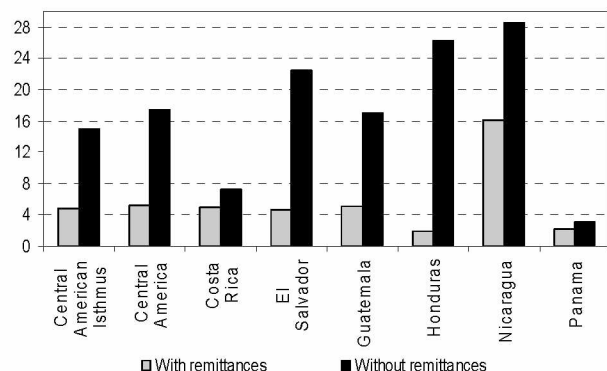
In 2006, the current account of the balance of payments of the Central American Isthmus recorded a deficit of 4,877 billion dollars (equivalent to 4.8% of GDP), which is a slightly lower figure than in 2005 (5.1%). This outcome was due to a trade deficit of 13,928 billion dollars (13.6% of GDP), which rose mainly because of the higher petroleum bill. Inflows from family remittances reached 10,516 billion dollars (equivalent to 10.2% of GDP) and covered 75.5% of the trade deficit, thus once again being a great source of relief for the current account.

GDP growth in the past was positively related to movements in the deficit of the current account balance of payments (see graph 3). However, in 2004-2006, a change occurred, and the two became inversely related because the requirement of foreign resources as a proportion of GDP has been

falling, while a positive trend is seen in economic growth. Therefore, it seems that the economies of the sub-region began a cycle in which external restriction on growth is losing importance. If this trend were to strengthen in the future, the sub-region would significantly reduce its vulnerability

to external impacts. Nevertheless, the current account deficit as a percentage of GDP is still high, and so measures are urgently needed to contain it, mainly by increasing exports.

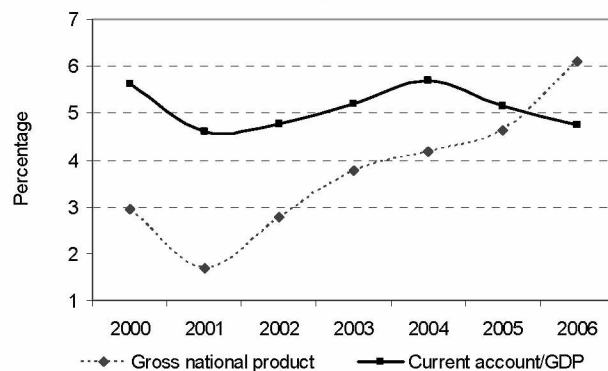
Graph 2
THE CENTRAL AMERICAN ISTHMUS: CURRENT ACCOUNT DEFICIT AS PERCENTAGE OF GDP, 2006 a/



Source: ECLAC, based on official figures.

a/ The current account deficit is expressed as a positive figure for a better understanding of the graph.

Graph 3
THE CENTRAL AMERICAN ISTHMUS: EVOLUTION OF CURRENT ACCOUNT DEFICIT AND GDP, 2000-2006 a/



Source: ECLAC, based on official figures.

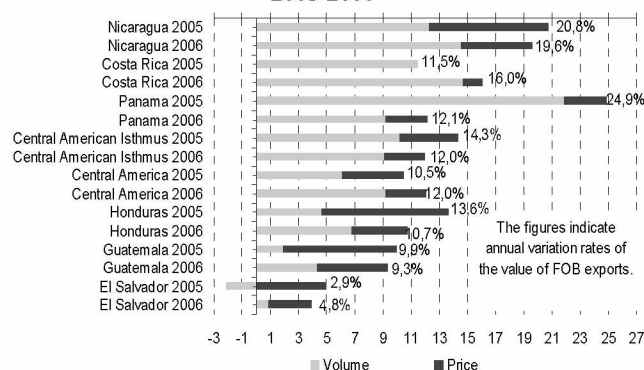
a/ The current account deficit is expressed as a positive figure for a better understanding of the graph.

Growing 12%, the export sector of the Central American Isthmus performed well in 2006, such as it did for the previous three years. Excluding Panama, exports grew from 10.5% to 12%. Even so, it compared poorly with the average growth seen in this sector in

Latin America and the Caribbean (19%). The

rates achieved in South American countries are caused by high prices of raw materials, their main export products, while the prices of manufactured products exported by Central America on average were lower. Nicaragua (19.6%) and Costa Rica (16%) showed the greatest increase in their exports. Despite the fact that El Salvador's export of goods grew one percentage point more than the year before, the figure remained moderate.

Graph 4
THE CENTRAL AMERICAN ISTHMUS: PERCENTAGE VARIATION OF FOB EXPORTS OF GOODS, BY UNIT PRICE AND VOLUME, 2005-2006

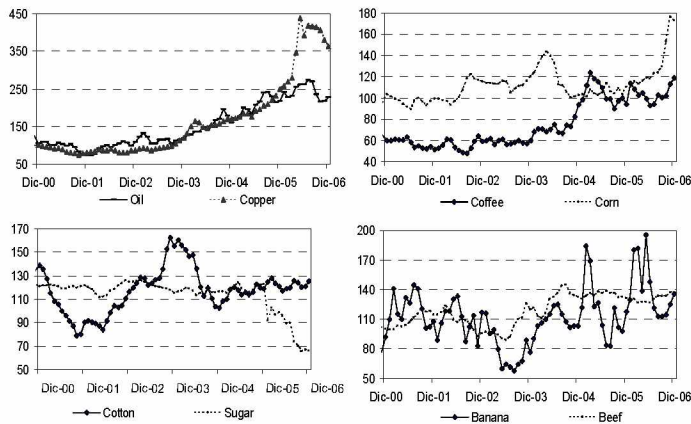


Source: ECLAC, based on official figures.

The volume effect contributed more than the price effect to the expansion of exports in the majority of the countries of the Central American Isthmus in 2006, contributing 9.1 and 2.9 percentage points, respectively, to total growth of the value of exports. However, the effect varied per country. In Guatemala and El Salvador the price effect was predominant, which is explained by the rise in price of traditional products like coffee.

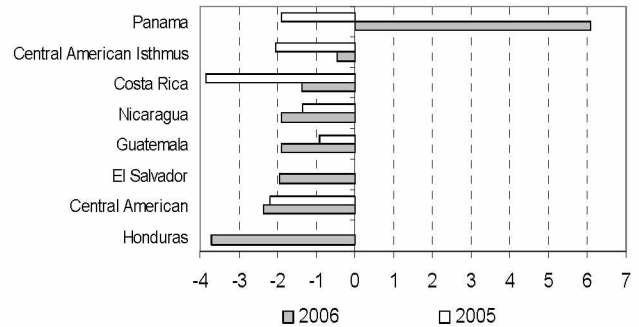
In contrast to most of the countries in the South of the continent, which once more benefited from the rise in international prices of copper, beef, and oil, the Central American Isthmus continued to suffer a widespread deterioration to terms of trade (-0.5%), since these countries are net importers of these products and because the prices of textile from in-bond production they export continue to decline.

Graph 5
THE CENTRAL AMERICAN ISTHMUS: SELECTED
COMMODITY EXPORT PRICES, 2000-2006
 (Index 2000 = 100)

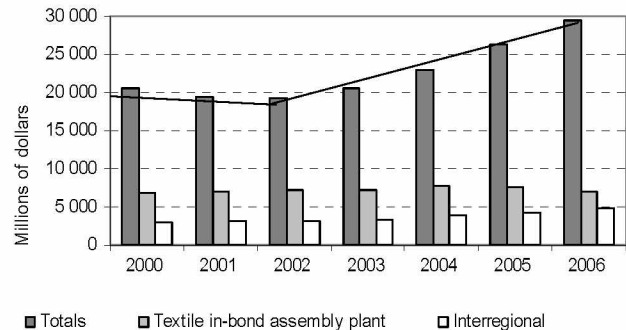


The total of amount of exports (29,381 billion dollars) rose for the fourth year in a row, reaching a growth rate of 12%, slightly lower than in 2005. Traditional exports increased 14.5%, and non-traditional exports increased 14.8%. Interregional exports grew 13.7%, variation that is more than three percentage points superior to that in 2005. The export of manufactured goods from Central America to the United States, specifically classified in chapters 61 and 62 of the Harmonized System, experienced a decrease of 5.1% compared with 2005. Noteworthy are the drops observed in Panama (19.4%), El Salvador 12.9%, and in Guatemala, 8%. This contrasts with the noteworthy result for Nicaragua (22.8%). Increasing Asian competition and the elimination of the Multi-fiber Agreement affected almost the entire sub-region, despite the fact that the Free Trade Agreement (DR-CAFTA) ² between the Dominican Republic, Central America and the United States came into effect. Additionally, the value of exports to Mexico fell 2.9%. Meanwhile, the value of imports coming from this country grew 19.6%. Thus, the trade balance for the sub-region showed a deficit of 1,867 billion dollars, which is equivalent to a 46.1% increase with respect to 2005.

Graph 6
THE CENTRAL AMERICAN ISTHMUS:
TERMS OF TRADE
 (Percentage variation 2005 and 2006)

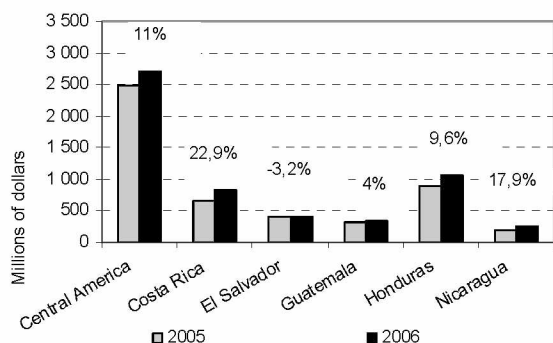


Graph 7
CENTRAL AMERICAN ISTHMUS: EVOLUTION OF
THE EXPORT OF GOODS, 2000-2006



In contrast, the value added of in-bond assembly plants (exports minus imports) and of free trade zones in Central America improved significantly in 2006 (11%) with respect to the previous year, mostly due to a considerable increase of said productive activity in Costa Rica (22.9%). Nicaragua, Honduras and Guatemala saw growths of 17.9%, 9.6%, and 4%, respectively. El Salvador, meanwhile, observed a 3.2% drop. This contrast with the negative results of in-bond assembly plants of simple garments indicates that a restructuring process is occurring in which the businesses that would survive will be those that offer what is known as the “complete package,” with greater added value, or those that diversify toward other products.

Graph 8
CENTRAL AMERICA: ADDED VALUE OF IN-BOND
ASSEMBLY PLANTS AND FREE TRADE ZONES,
2005-2006



Source: ECLAC, based on official figures.

The regional imports of goods totaled 45,941 billion dollars and rose 15% with respect to 2005, similar than the previous year. Once again the increase in the price of oil and fuel, as well as other intermediate goods, was one of the factors that drove up the foreign bill. But it is also important to point out that a large proportion of the amount imported went towards the purchase of capital goods, which will help to spur regional economic activity.

For the fifth year in a row there was a healthy growth in revenue from tourism (16.4%). The growth in El Salvador and Panama stands out with increases of more than a quarter in comparison with 2005.

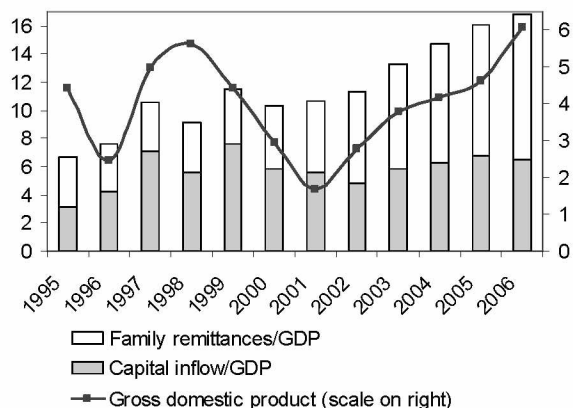
The financial account in the Central American Isthmus observed a positive balance of 6,728 billion dollars, which is 7% superior to that of the previous year. Nevertheless, this amount as a proportion of GDP fell from 6.7% in 2005 to 6.6% in 2006, thus interrupting the growth trend seen in the past three years.

The different accounts in 2006 included the considerable inflow of Foreign Direct Investment (FDI) in Costa Rica and Panama, moderate amounts of medium-term bank loans, and outflows of short-term capital, the latter evident in Panama. The net transfer of resources to the Isthmus was 4.6 billion dollars, much higher than 3.6 billion in 2005. Increased family remittances were crucial in that respect, making it possible for international reserves to grow 1,851 million dollars.

In contrast with the inflow of capital family remittances have shown steady growth since

2002 reaching 10.2% of GDP in 2006 (see graph 9). This inflow counterbalanced the sub-region's trade deficit (13.6% of GDP) and made a decrease in the current account deficit of the balance of payments possible. In El Salvador, Guatemala, and Honduras, economies that receive the greatest proportions with respect to GDP, this inflow has spurred economic growth.

Graph 9
THE CENTRAL AMERICAN ISTHMUS: GROSS
DOMESTIC PRODUCT AND REVENUES FROM
CAPITAL AND FAMILY REMITTANCES, 1995-2006
(Percentages)



Source: ECLAC, based on official figures.

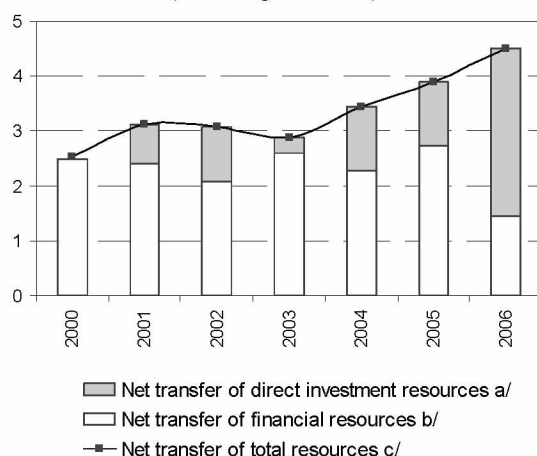
The total net transfer of resources (NTR) to the Central American Isthmus continued to be positive, as in previous years. In 2006, it equaled 4.5% of GDP (see graph 10). Unlike previous years, however, in 2006 the contribution of NTR of direct investment resources was larger (3% of GDP). On the other hand, the NTR of financial accounts was smaller (1.5% of GDP), due to the noticeable amount of repayments of foreign debt. The positive NTR to the Isthmus contrasted with the NTR to Latin America and the Caribbean that has been negative since 2002.

In 2006 net foreign direct investment (FDI) in the Isthmus rose to 5,192 billion dollars, with an increase of 60% with respect to 2005, which is mostly explained by the increased amounts received by Panama and then Costa Rica. Only El Salvador recorded a decrease in FDI (see graph 11).

In Costa Rica, the inflow of FDI reached the record amount of 1.34 billion dollars that went to the real estate sector, tourism, financial activities, agriculture, and trade. In Guatemala, Honduras, and Nicaragua, FDI added up to around

300 million dollars. In Guatemala, foreign investment was greatest during the last five years and was channeled into the communications, trade, and chemical industry sectors. The communications and transportation sectors, along with in-bond assembly plant companies were the main destinations of FDI in Honduras, while in Nicaragua the main destinations were the service sector and also in-bond assembly plant companies. Panama's investment flow reached the unprecedented amount of 2.5 billion dollars, chiefly the result of the sale of the main national bank.

Graph 10
THE CENTRAL AMERICAN ISTHMUS:
NET TRANSFER OF RESOURCES BY
COMPONENT, 2000-2006
(Percentages of GDP)



Source: ECLAC, based on official figures.

a/ Equivalent to net inflow of foreign direct investment (FDI), minus repatriation of net profits.

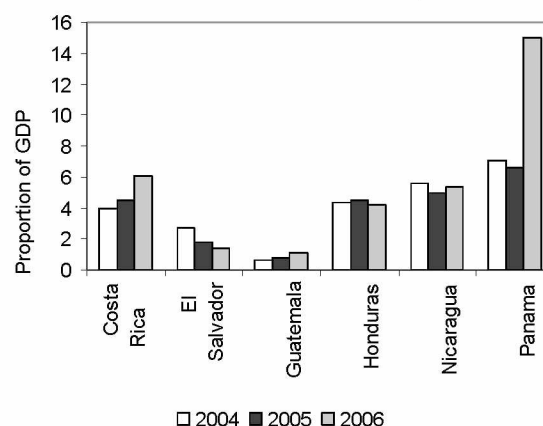
b/ Equivalent to inflow of capital, other than FDI, minus net payment of interest.

c/ Equivalent to NTR of direct investment plus NTR of financial resources.

The net flow of foreign debt (bonds) was negative, and amounted to 440 million dollars. In Costa Rica there was a net outflow, while other countries did not record variations of importance, with the exception of El Salvador. In 2006, El Salvador's government carried out gross bond placements in international markets in the amount of 625 million dollars. The largest bond issue was for 573 million dollars with 30 years maturity and a 7.7% interest rate; these funds were partly used to finance the fiscal deficit caused by the debt of the pension system and also to restructure external liabilities. On the

other hand, the governments of Costa Rica and Guatemala, like most of the other Latin American countries, chose to finance the fiscal deficit with debt placements in the local market.

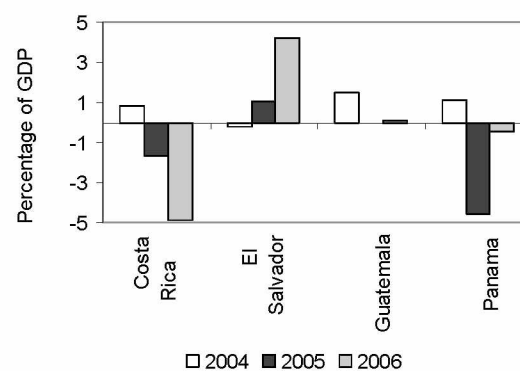
Graph 11
THE CENTRAL AMERICAN ISTHMUS: NET
FOREIGN DIRECT INVESTMENT, 2004-2006



Source: ECLAC, based on official figures.

Honduras and Nicaragua cannot issue bonds in international financial markets since they are committed to the Initiative for Debt Reduction of the Highly Indebted, Poor Countries (HIPC). In Panama, the gross debt placements of 1.776 billion dollars realized in 2006 were almost entirely used in operations to restructure the debt, resulting in a low level of new net debt.

Graph 12
COSTA RICA, EL SALVADOR, GUATEMALA Y
PANAMA: NEW DEBT IN BONDS, 2004-2006 a/



Source: ECLAC, based on official figures.

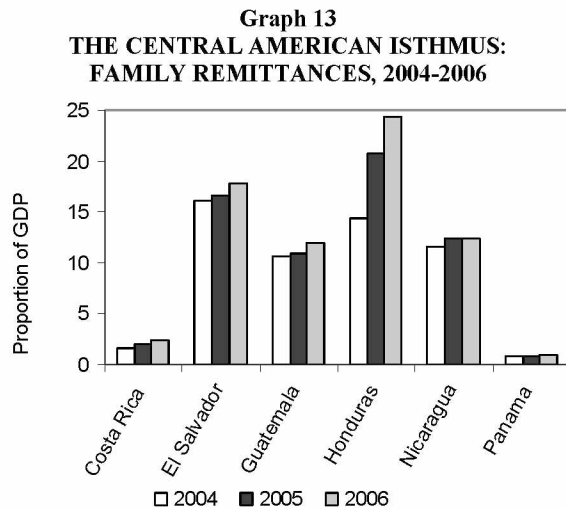
a/ In international financial markets.

Guatemala and Costa Rica showed the largest increase in their foreign commercial bank debt (860 and 1,550 million dollars, respec-

tively). In contrast, Panama experienced a significant decrease in its foreign debt with international banks.

Family remittances continued their accelerated growth rate, increasing 21.3% in 2006, to reach 10,516 million dollars. For the fifth year in a row, they contributed a greater amount of foreign currency than the inflows of debt and investment capital combined.

Although family remittances cushion the trade deficit, at the same time they contribute to the appreciation of national currencies with their consequent negative impact on the non-traditional export sector, which slows down. The remittances continued to be concentrated in El Salvador and Honduras, followed by Guatemala and Nicaragua. In 2006, they increased reaching unprecedented proportions of GDP in Honduras (24%) and El Salvador (18%). On the other hand, the inflow of remittances as a proportion of GDP was low in Costa Rica and Panama (2% and 1%) (see graph 13).

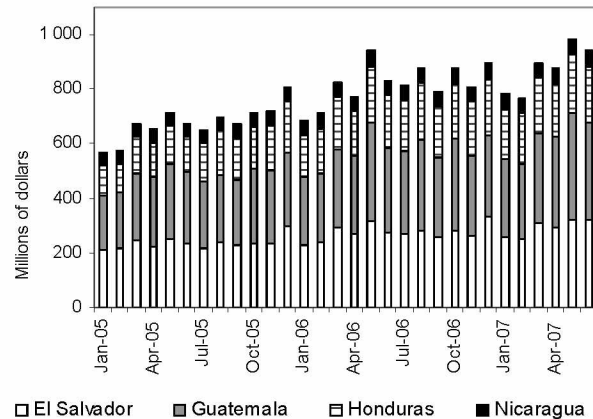


Source: ECLAC, based on official figures.

Between the mid-2006 and mid-2007, the family remittances of El Salvador, Guatemala, Honduras and Nicaragua registered a marked slowdown in their rate of growth (see graph 14).

The growth rate in that period has been only 13%, compared to 23% a year earlier. The problems of the real-estate sector in the economy of the United States have had repercussions on the family remittances because many immigrants work in the construction sector. The harsher immigration policy of the US, coupled with deportation of illegal immigrants was also an important factor. In spite of that, the inflow of family remittances will continue to be very important and will reach 3,600 million dollars in Guatemala, 3,300 million in El Salvador, 2,200 million in Honduras and 700 million in Nicaragua in 2007.

Graph 14
THE CENTRAL AMERICAN ISTHMUS: FAMILY
REMITTANCES, JANUARY 2005-JUANUARY 2007



Source: ECLAC, based on official figures.

Three of the main international, sovereign risk-assessment companies maintained the same assessment in 2006 of long-term debt instruments for countries of the Isthmus. At the beginning of 2007, Standard & Poor's (S&P) modified its assessment of bonds in local currency in Guatemala from BB to BB+, and Fitch Ratings changed its outlook for bonds in foreign currency from stable to positive. Both Fitch Ratings and Moody's Investors Service changed their outlook for Costa Rica of bonds in foreign currency from negative to stable.

Box 1

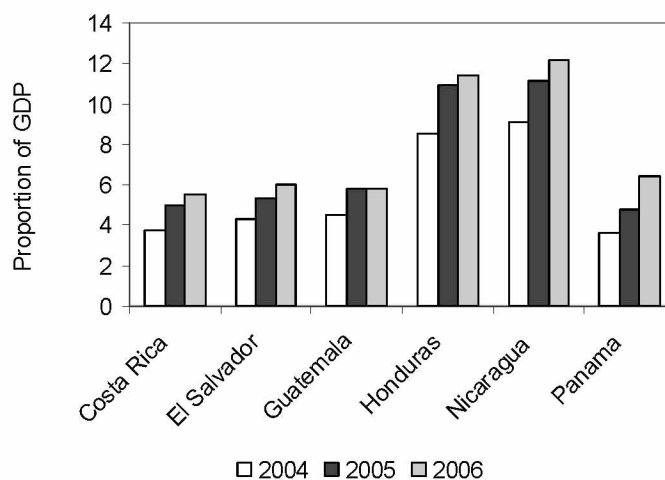
EFFECT OF PRICE INCREASE IN PETROLEUM IN THE CENTRAL AMERICAN ISTHMUS

The countries of the Central American Isthmus continued to be very affected by the price increase in petroleum and derivatives. Between 2003 and 2006, the price of petroleum increased from 31.1 dollars to 66.1 dollars a barrel, and, mainly because of the price effect, the petroleum bill rose from 3.2 to 6.9 billion dollars.

Despite lower petroleum prices in the second half of 2006, the average for 2006 was higher than in 2005. The amount spent on petroleum grew almost two and a half times in Honduras and Costa Rica and doubled in El Salvador, Guatemala, and Nicaragua between 2003 and 2006. The increase in the petroleum bill affected the current account deficit of the countries of the Isthmus; in 2006, it equaled 140% of the regional deficit, having a much greater impact on El Salvador's deficit.

The regional petroleum bill amounted to 6.7% of GDP in 2006. Nevertheless, its impact varied per country; it mostly affected Nicaragua and Honduras (12% of GDP), followed by Costa Rica, El Salvador, Guatemala, and Panama, where the petroleum bill as a percentage of GDP was around 6% of GDP. These differences are related to the level of dependence that each country has on electricity generators that use petroleum and its derivatives in producing electrical energy.

Graph 15
THE CENTRAL AMERICAN ISTHMUS: PETROLEUM BILL, 2004-2006



Source: ECLAC, based on official figures.

Table 1

THE CENTRAL AMERICAN ISTHMUS: SOVEREIGN RISK RATINGS

(Long term)

	S&P				Moody's				Fitch			
	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency	Date	Bonds in foreign currency	Trend	Bonds in local currency
Costa Rica	Aug-07	BB	Stable	BB+	Aug-07	Ba1	Stable	Ba1	Aug-07	BB	Stable	BB+
	Dec-06	BB	Stable	BB+	Dec-06	Ba1	Stable	Ba1	Dec-06	BB	Stable	BB+
	Jun-06	BB	Stable	BB+	Jun-06	Ba1	Negative	Ba1	Jun-06	BB	Negative	BB+
	Dec-05	BB	Stable	BB+	Dec-05	Ba1	Negative	Ba1	Dec-05	BB	Negative	BB+
	Jun-05	BB	Stable	BB+	Jun-05	Ba1	Negative	Ba1	Jun-05	BB	Negative	BB+
El Salvador	Aug-07	BB+	Stable	BB+	Aug-07	Baa3	Stable	Baa2	Aug-07	BB+	Stable	BB+
	Dec-06	BB+	Stable	BB+	Dec-06	Baa3	Stable	Baa2	Dec-06	BB+	Stable	BB+
	Jun-06	BB+	Stable	BB+	Jun-06	Baa3	Stable	Baa2	Jun-06	BB+	Stable	BB+
	Dec-05	BB+	Stable	BB+	Dec-05	Baa3	Stable	Baa2	Dec-05	BB+	Stable	BB+
	Jun-05	BB+	Stable	BB+	Jun-05	Baa3	Stable	Baa2	Jun-05	BB+	Stable	BB+
Guatemala	Aug-07	BB	Positive	BB+	Aug-07	Ba2	Positive	Ba1	Aug-07	BB+	Stable	BB+
	Dec-06	BB	Stable	BB	Dec-06	Ba2	Positive	Ba1	Dec-06	BB+	Stable	BB+
	Jun-06	BB-	Stable	BB	Jun-06	Ba2	Stable	Ba1	Jun-06	BB+	Stable	BB+
	Dec-05	BB-	Stable	BB	Dec-05	Ba2	Stable	Ba1				
	Jun-05	BB-	Stable	BB	Jun-05	Ba2	Stable	Ba1				
Honduras	N/A	N/A	N/A	N/A	Aug-07	B2	Stable	B2	N/A	N/A	N/A	N/A
					Dec-06	B2	Stable	B2				
					Jun-06	B2	Stable	B2				
					Dec-05	B2	Stable	B2				
					Jun-05	B2	Stable	B2				
Nicaragua	N/A	N/A	N/A	N/A	Aug-07	Caa1	Stable	B3	N/A	N/A	N/A	N/A
					Dec-06	Caa1	Stable	B3				
					Jun-06	Caa1	Stable	B3				
					Dec-05	Caa1	Stable	B3				
					Jun-05	Caa1	Stable	B3				
Panama	Aug-07	BB	Positive	BB	Aug-07	Ba1	Stable	N/A	Aug-07	BB+	Stable	BB+
	Dec-06	BB	Stable	BB	Dec-06	Ba1	Stable	N/A	Dec-06	BB+	Stable	BB+
	Jun-06	BB	Stable	BB	Jun-06	Ba1	Stable	N/A	Jun-06	BB+	Stable	BB+
	Dec-05	BB	Stable	BB	Dec-05	Ba1	Stable	N/A	Dec-05	BB+	Stable	BB+
	Jun-05	BB	Stable	BB	Jun-05	Ba1	Stable	N/A	Jun-05	BB+	Stable	BB+

Source: Standard & Poor's (S&P), Moody's Investors Service, and Fitch Ratings.

N/A: Not available.

3. Economic policy

The objectives of the macroeconomic policy in 2006 were aimed at slowing the variation rate of prices and at continuing economic growth close to potential. Specifically, fiscal policy sought to contribute to macroeconomic discipline, monetary policy focused on combating inflation without impeding growth, and exchange-rate policy tried to prevent volatility of the nominal exchange rate. The results were better than those obtained in previous years, since high economic growth with lower inflation and stability of the exchange rate was achieved.

a) Fiscal policy

The process of fiscal consolidation that began in 2004 continued in 2006. Thanks to the increase in economic activity, the central government's revenue as a percentage of GDP grew from 16.1% in 2005 to 17.4% in 2006. Noteworthy was the increase of more than 3% of

GDP in Panama due to the effects of the 2005 fiscal reform. In contrast, fiscal expenditures of the countries analyzed decreased their participation in GDP 0.1 percentage points, thus facilitating another decrease in the global deficit. In terms of simple average, there was a decrease from what is equivalent to 2.1% of GDP in 2005 to 0.8% in 2006.

Table 2

THE CENTRAL AMERICAN ISTHMUS: FISCAL INDICATORS IN 2005 AND 2006

(Percentage of GDP)

	Fiscal deficit of the central government/GDP		Stock of external public debt		Stock of internal public debt	
	2005	2006	2005	2006	2005	2006
Central American Isthmus a/	-2.1	-0.8	45.5	37.3	16.1	15.0
Costa Rica	-2.1	-1.1	18.2	16.3	24.2	23.1
El Salvador	-1.0	-0.4	29.3	30.6	16.1	14.4
Guatemala	-1.7	-1.9	13.6	13.1	7.9	8.8
Honduras	-2.6	-1.3	52.6	32.6	3.9	4.6
Nicaragua	-1.9	-0.0	110.2	85.4	27.5	23.3
Panama	-3.2	-0.2	49.0	45.6	17.1	15.6

Source: ECLAC, based on official figures.

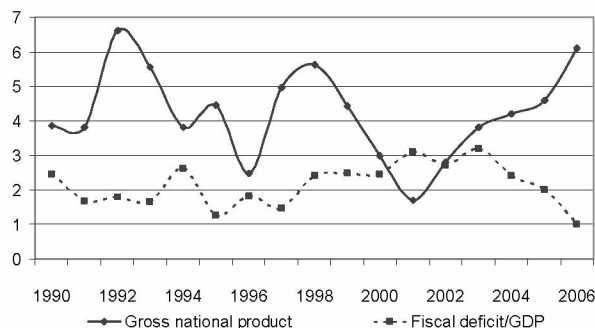
a/ Simple average.

In contrast to 2004-2005, when belt-tightening was carried out by reducing expenditures, consolidation in 2006 was much more appropriate in Central America's case, due to the fact that the sub-region's tax burden is less than in the rest of the Latin American countries, and also due to its enormous social spending needs. Given that the rate of increase of revenue was greater than that of expenditures, progress has been made in rectifying these two deficiencies.

Furthermore, if the macroeconomic impact on fiscal policy is analyzed, a countercyclical effect can be observed in 2006. In fact, comparing the average growth rate of GDP and the fiscal deficit, it is evident that beginning in 2001 there is a change in the relation between the two from positive (fiscal policy procyclical behavior) to inverse. In effect, during the slowdown of the economy in 2001, the central government recorded an overall deficit compared with the previous year. On the other hand, the strengthening

of GDP growth began in 2002 and coincided with, beginning in 2003, strong fiscal consolidation that in three years reduced the fiscal deficit from the equivalent of 3.4% of GDP to only 0.8% in 2006. Both behaviors have countercyclical effects, since they moderate fluctuations within the economic cycle. Thus, fiscal policy has lessened the volatility of growth in the economies and the vulnerability to external impact. Although this result was not the product of a deliberate decision to change the character of fiscal policy, but actually the product of favourable circumstances, the effects mean significant progress compared to the previous policy of receiving a peso and spending a peso, which is to say governed by the availability of financial resources.

Graph 16
THE CENTRAL AMERICAN ISTHMUS:
EVOLUTION OF GDP AND CENTRAL
GOVERNMENT FISCAL DEFICIT,
1990-2006 a/
 (Percentage and percentage of GDP)



Source: ECLAC, based on official figures.

a/ Fiscal deficit here is average weighted by GDP of the countries. Figures are expressed as positive for a better understanding of the graph.

Although considerable fiscal reforms were not implemented in 2006, perceptible progress was achieved in fiscal practices and the fight against fiscal fraud. Almost all of the countries increased their financial intakes through tariffs when the logic of trade opening pointed in the opposite direction. This can be explained by the efforts to improve customs control, among other things, and by new systems such as Costa Rica's Information Technology for Customs Control (from the Spanish acronym TICA). Guatemala, for its part, passed a law

against tax evasion that established the Fiscal Registry Office of Printing, made some operations possible in the banking system, and expanded the powers of tax management.

To mitigate the debt problem of the pension system, El Salvador created a trust with which it expects to lower its annual cost, which is currently equivalent to 2% of GDP, to only 0.2% in the future. The problem stems from the 1999 social security reform, which replaced the pay-as-you-go system with an individual account system, but financial means were not established to fund the transition from the one system to the other.

Total public debt dropped again, this time 9 percentage points of GDP. The reasons were once again related to the high GDP growth rate and to debt cancellations for the poorest countries (Honduras and Nicaragua). Added to the forgiveness of debts within the HIPC were the effects of the Multilateral Debt Relief Initiative (MDRI), driven by the Group of Eight governments (G-8), in order to reduce or forgive debt for poor countries to international financial institutions. Finally, at the beginning of 2007, the Inter-American Development Bank agreed to forgive the debt that Honduras and Nicaragua had accumulated with it. In the case of Honduras, this would be a considerable reduction, around 1.4 billion dollars.

Nevertheless, there were setbacks in some aspects. In Costa Rica, in spite of the new government's political capital, the fiscal reform project has not made progress. In Guatemala, Congress did not pass the budget for 2007, and so the 2006 budget continued to be applied. Honduras agreed with the teacher's union to a wage increase that would drive up the total public salary bill from what is the equivalent of 9.3% of GDP in 2006 to 10% in 2007. Although this adjustment alone should not hurt macroeconomic stability, it could provoke a "domino effect" that might inhibit fiscal consolidation efforts.

b) Monetary and exchange-rate policy

In this context, monetary and exchange-rate policy greatly contributed to the positive performance of the sub-region's economy, to controlling inflationary pressures, and to preventing exchange-

rate volatility. However, it is important to point out that many factors caused inflation to decrease.

The structural reforms endorsed in recent years promoted lowering the inflation rate. The external environment continued to favour economic growth in the area, especially thanks to strong external demand and the price of goods other than fuel. At the same time, the dynamism of family remittances and the large amount of financial resources entering the countries of the Isthmus helped to cushion the impact of imported inflation, origin of the nearly widespread appreciation of currencies in the region.

Thanks to cautious monetary policies, main monetary aggregates did not vary significantly, while interest rates in general tended to drop. Domestic credit has improved in several countries, primarily driven by loans to families. Loans for consumption and mortgages continued to be the main source of credit growth for the private sector. Banks have focused on lending to families, which in many cases offers larger margins, better guaranties, and lower risk than lending to companies.

The main instruments that authorities used to control liquidity were related to the interest rate, either by directly modifying the cost of interbanking refinance or through open-market operations. However, it is important to note that monetary stabilization operations came at a high cost, giving rise to considerable quasifiscal imbalances in some countries. Therefore, some countries began to introduce changes to the legal reserve in order to better control the commercial bank's ability to create money.

In 2006, the dollarization of financial assets and liabilities continued to rise, resulting in less effectiveness and increased risks and costs to monetary policy. Furthermore, in countries where public debt is high, expectations that the public debt would be "liquefied" via inflation in the future continued to be strong, eroding the credibility of monetary policy. Some countries initiated change in their exchange-rate regimes, opting for a more flexible framework, at the same time that other countries modified their monetary regimes, from systems based on monetary aggregates towards frameworks based

on inflation targets. It must also be mentioned that the Central Banks have used different mechanisms to achieve their objectives. For example, two of the countries of the region (Panama and El Salvador) use the US dollar as their national currency; others, like Honduras and Nicaragua, rely on the crawling-peg system. Costa Rica replaced its mobile parity regime with a fluctuation range, and Guatemala has a controlled flotation regime.

Despite adopting new monetary and exchange-rate regimes and the positive results obtained in carrying out inflationary goals, worry persists about being able to contain the effects of external impact, especially in those economies experiencing significant changes in the flow of capital, with imperfect financial markets, and monetary and financial institutions that are in the process of consolidation. For example, Guatemala continued to record an appreciation of the quetzal, mainly due to the large amount of financial resources entering the economy (in general, family remittances and short-term capital). An overvalued currency discourages exports, primarily non-traditional products, thus perpetuating dependency on primary goods, which are in turn very vulnerable to fluctuations in international prices. In an open economy, exchange-rate appreciation also stimulates imports and, consequently, causes the trade deficit to rise. Furthermore, overvaluation at some point leads to expectations of devaluation, encouraging currency speculation.

The majority of the countries recorded a slight real appreciation, when the real bilateral exchange-rate index is measured with respect to the United States dollar. In contrast, the countries that use the United States dollar as their currency (El Salvador and Panama) saw moderate depreciation when the total effective real exchange rate, which measures the fluctuation of the exchange-rate with all the currencies of a country's trade partners, is used. Another four countries, using this second indicator, experienced currency appreciation. What instigated these movements was the depreciation of the United States dollar against other currencies, especially the euro.

Box 2**COSTA RICA: MONETARY AND EXCHANGE-RATE POLICY**

In Costa Rica, the Central Bank's primary goal for its monetary policy in 2006 was to reduce inflation. Towards this end, measures were taken to decrease the excess liquidity recorded in 2005. The monetary authority replaced the short-term, 30-day investment rate with an overnight facility's rate as the main monetary policy interest rate, in order to prevent speculative capital from entering the economy and the resulting monetization. Also, monetary absorption instruments were introduced, such as the issuance of Monetary Stabilization Bonds (BEM, for its acronym in Spanish), deposited electronically.

Even so, it must be kept in mind that several factors continued to limit the effectiveness of the monetary policy. In part, the instability of the demand for the dollar, influenced by financial innovation activities and the high mobility of capital, makes it increasingly more difficult for the Central Bank to control the total liquidity in the economy. Under a regime of a fixed exchange rate with free movement of foreign capital, primary money creation is determined not only by the expansion the Central Bank's domestic assets, but also by the result obtained in the exchange-rate market. Accordingly, increases in the Central Bank's interest rate policy, for example, in addition to influencing consumption and investment decisions, attract international financial saving, which, through the monetization process, diminishes the contractive effect expected following an increase in interest rate, limiting the Central Bank's ability to control means of payment consistent with its inflation goal. In effect, Costa Rica's Central Bank faced what, in economic theory, is called "the impossible trinity." When facing a situation of free movement of capitals, a Central Bank cannot have an active monetary policy and control the exchange rate at the same time.

In this context, the decision was made to begin a transition from the control of monetary aggregates towards a monetary policy with inflation goals and to adopt a more flexible exchange-rate regime. Thus, the outcome expected for the monetary policy is greater independence and credibility, lower inflation rates and volatility, as well as a lower pass-through from devaluation to inflation. In the 2007-2008 macroeconomic program, the Central Bank fixed its inflation goal at 8% for 2007 and at 6% for 2008. That decision was taken considering the favorable macroeconomic situation, characterized by a relatively high level of net international reserves, fiscal discipline, and stability of the financial system.

In the middle of October of 2006, it was determined that the daily adjustment plan of the nominal exchange rate of the colon with respect to the United States dollar (depreciation of 0.13 colons per day) would be substituted with a regime of exchange-rate band with moderate initial breadth (3%), but growing with time, which would allow for a more flexible exchange rate. The band's minimum will increase 0.06 colons a day, while the maximum will increase 0.14 colons. However, the oversupply of dollars on the market has resulted in the exchange rate squarely stuck to the floor of the band and has obliged the Central Bank to intervene systematically in order to defend the existing arrangement. With that in mind, in January of 2007, the minimum value (floor) of the exchange-rate band was fixed at 519.16 colons per dollar, while the maximum one's increase (the roof) was reduced to 0.11 colons daily. At the same time, the interest rate of the Bank's repo instruments was reduced. It is expected that the measures reduce the inflow of short-term capital, alleviate the surplus of dollars, and result in more fluctuation of the exchange rate. However, given the continuing inflow of capital into the economy, it is probable that the exchange rate would stay close to the inferior value of the band. Between January and June 2007 the colon's depreciation rate was only 0.13%, compared with 3% in the same period of 2006.

Table 3

THE CENTRAL AMERICAN ISTHMUS: REAL EXCHANGE RATE, 2000-2006

(National monetary units per dollar) a/

	2000	2001	2002	2003	2004	2005 b/	2006 c/
Index of the real bilateral exchange rate with the U.S. dollar (2000 = 100)							
Costa Rica	100.0	98.6	100.4	104.0	104.4	103.5	104.9
El Salvador	100.0	99.1	98.8	99.0	97.3	96.1	95.3
Guatemala	100.0	97.0	90.7	89.1	85.2	77.5	74.8
Honduras	100.0	97.7	97.9	98.2	97.8	95.9	93.9
Nicaragua	100.0	102.8	106.7	109.9	109.7	108.7	107.9
Panama	100.0	102.5	103.1	104.0	106.2	106.8	107.6
Index of the real total effective exchange rate (2000 = 100) d/							
Costa Rica	100.00	97.0	97.3	103.3	106.8	108.3	108.2
El Salvador	100.00	99.6	99.5	100.0	100.2	101.6	102.0
Guatemala	100.00	95.7	88.5	88.6	85.9	79.9	77.5
Honduras	100.00	97.1	96.9	98.4	100.0	100.1	98.9
Nicaragua	100.00	101.1	103.3	107.0	108.9	108.1	107.9
Panama	100.00	102.9	101.2	103.2	108.4	110.6	111.8

Source: ECLAC, based on official figures.

a/ For Costa Rica and El Salvador, colons; Guatemala, quetzals; Honduras, lempiras; Nicaragua, cordobas, and Panama, balboas.

b/ Preliminary figures.

c/ Estimated figures.

d/ Average from January to October. The index of the total real effective exchange rate is calculated by weighting the indices of the real bilateral exchange rate of each trade partner by trade participation—exports plus imports—with that partner in the country's total trade. A currency depreciates in real effective terms when this index increases, and it appreciates when this index decreases.

As for the financial systems, efforts continued in order to improve legal, regulatory, and institutional frameworks. In 2006, indicators of financial stability became even stronger. The improvement in the quality of assets has been reflected in a decrease in the number of defaulted loans, while the considerable level of provisions and the shift towards greater loan concessions have set slightly lower capitalization coefficients. The larger volume of loans and the stability of the margins have contributed to increasing bank profitability.

Nevertheless, there are still significant vulnerability factors primarily related to the high degree of dollarization, the lack of funds in the general balances, the liabilities resulting from costly retirement systems, the insufficient development of the insurance sector, as well as the lax definition of defaulted loans, unregulated offshore activities, loans to related businesses, and the mostly passive supervision. Guatemala, which experienced a bank crisis of limited proportions at the end of 2006, is a prime example in this respect.

Box 3

BANK CRISIS IN GUATEMALA

In October of 2005, Bancafé Internacional Bank, an offshore entity a/ and subsidiary of Banco del Café, Inc. (Bancafé), saw its assets affected by the freezing of a 201.2 million dollar investment carried out in Refco Capital Markets, Ltd. This stocks and bonds brokerage firm established in New York had recourse to the United States bankruptcy law. Facing this situation, those in charge of bank supervision in Guatemala notified Bancafé authorities that they should comply with a restructuring program. This bank, however, failed to comply. For this reason and other legal infringements, the Bank of Guatemala's Monetary Board of Directors ordered the suspension of Banco del Café's activities on 19 October, 2006. Bancafé was the fourth most important bank in the Guatemalan banking sector.

On 12 January, 2007 Commercial Bank, a small bank with 1.7% of the banking system's deposits, was audited. The Bank of Guatemala discovered illegal deposit operations performed by other companies that were not on Commercial Bank's financial statements.

In Guatemala, the Savings Protection Fund (FOPA) is set up. It is estimated that in order to respond to the situation for all of those who deposited in Bancafé and Commercial Bank, FOPA spent 1.960 billion quetzals, equivalent to 255 million dollars. Eighty percent of this amount went to those who had deposited in Bancafé, not including its offshore entity. In order to cover the cost of the emergency, FOPA asked for financial assistance from the Fiduciary Fund for Bank Capitalization in the amount of 360 million quetzals.

Although in this occasion a systemic bank crisis was avoided, it is important to keep in mind that the authorities' priority is facing the challenge of strengthening bank supervision, particularly of offshore entities.

Source: ECLAC, based on official figures.

a/ In July of 2005, the investments in offshore entities of 11 banks equaled 25% of the banking system's total assets. See Balsells Edgar, *Competition and regulation of the bank in Guatemala* (LC/MEX/L.728/Rev.1), 29 January, 2007.

Regional integration of the financial sector has continued, and cross-border activities increased. Some financial institutions that initially focused on the domestic market continued to expand in the entire region, furthering the regionalization process of the banking system in the Isthmus. To this phenomenon, already several years old, a new one was added in 2006, namely the arrival of banks or financial groups that are among the largest in the world. What is new about this is that these institutions buy the banks that participated in the bank regionalization process and that are present in practically all of the countries in the Central American Isthmus.

This phenomenon could be characterized as a new phase in the regionalization of the banking systems and is led by large financial groups, such as Citigroup and Hong Kong and Shanghai Bank-

ing Corporation (HSBC). The former purchased Grupo Cuscatlán, the second largest in El Salvador, and the financial group Uno, the fifth largest in El Salvador, while HSBC acquired Banistmo, the largest bank in Panama. The fact that these regional banks were acquired by the world's leading banks shows that the combined market of the countries of the Isthmus is already sufficiently large enough to arouse interest outside of the region. The entry into force of DR-CAFTA, with its potential of attracting foreign investment and the financial needs of expanding the exports of the Isthmus, without a doubt has influenced decisions to buy. Another important element is the growing financial business related to the increase in family remittances in several countries of the sub-region. Specifically, banks increasingly try to secure more of this business, by, among other things, offering to open bank accounts for those who receive remittances, so as

to be able to channel this financial flow through their branches.

The arrival of the world's leading banks has the effect of accelerating consolidation processes both nationally and in the sub-region. This was seen in Guatemala with some six mergers and/or acquisitions in just six months time. The bank crisis was another element that stimulated this process. In Panama, a new financial conglomerate formed with the merger of Grupo Financiero Continental and Empresa General de Inversiones, with combined assets of around 7 billion dollars. Finally, the corporation Assa de Panamá purchased shares in Nicaragua's Banco de Finanzas. These processes are expected to continue until the position of the sub-region's strongest financial groups and the large international banks has been strengthened.

The integration and consolidation of the financial sector will help the sub-region benefit from economies of scale and will promote competition and efficiency. At the same time, however, the integration of the financial sector increases the effects of propagation and contagion in the eventuality of a bank crisis, and the regionalization of financial services reflects in part certain regulatory and tax arbitration. Consequently, it becomes more important to take into consideration regional aspects of activities in the financial sector. Given that the consolidation of regional financial operations is only partial and that the majority of cross-border financial intermediation is not carried out in a consolidating manner, it is fundamental that the region furthers the development of consolidating supervision both domestically and regionally.

c) Trade policy

For Central America, 2006 was a significant year in this area because DR-CAFTA came into force, with the exception of Costa Rica that

has not ratified the agreement. This agreement with the United States, Central America's most important trade partner, was instrumental in the adoption of numerous regulations that should have the effect of homogenizing norms among member countries.

Progress towards the Central American Customs Union continued at a slow, gradual pace towards common customs administration, customs facilitation, tariff harmonization, free movement of goods and services, uniform trade regulations, tax harmonization, and the harmonization of sanitary and phytosanitary measures. These advancements will make it possible for the region to be more integrated in the near future.

The integration of Central America also received a big push from the intention of the countries of the Isthmus to negotiate an Association Agreement with the European Union (EU). The EU's precondition for this agreement is the advancement of the integration process within the sub-region. Furthermore, Panama made the strategic decision to participate both in the integration process of Central America and in the Association Agreement with the United States. As part of this decision, Panama's bilateral negotiations, at a standstill for several years, were renewed with Guatemala, Honduras, Nicaragua, and Costa Rica.

Finally, Guatemala, El Salvador, and Honduras, after ten months of negotiation, signed a free trade agreement (FTA) with Colombia in mid-2007 that will enter into effect in the second half of 2008. The FTA will allow for 10 years' grace period on different industrial and agricultural products. Panama, in turn, concluded negotiations on an FTA with the United States in December, thus approaching conditions that prevail in the other countries of the Isthmus.

Table 4

BANKING SYSTEM INDICATORS, 2005 AND 2006

(December)

Financial indicators	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama	
	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
a) Patrimony/ total asset	9.5	10.2	11.1	11.8	8.4	8.1	8.4	8.4	9.0	9.7	13.0	12.0
b) Non-performing portfolio provisions/primary capital a/	-7.1	-8.1	-4.5	-3.0	2.4	1.1	19.2	9.2	-21.6	-15.0	-0.4	-0.6
c) Non-performing portfolio/total credit	1.5	1.5	1.9	1.9	2.5	2.3	5.3	3.8	2.1	2.0	1.7	1.3
d) Portfolio/non-performing portfolio provisions loss	156.9	167.1	125.9	117.3	87.8	94.4	60.1	76.5	188.6	176.2	125.1	142.3
e) Total deposits/total credit	137.9	131.3	95.7	93.3	154.3	153.0	116.6	110.9	152.6	129.7	118.6	120.8
f) Annualized administrative expenditure/average asset	5.2	4.9	2.9	2.9	4.6	3.9	5.1	4.9	5.1	5.5	1.0	0.9
g) Total asset (millions of dollars)	11,643.1	13,571.0	10,164.1	10,879.0	11,666.4	14,046.3	6,662.5	8,300.8	2,577.8	2,868.9	38,641.6	45,101.0
h) Total asset/number of banks (millions of dollars)	612.8	848.2	968.2	1,028.5	448.7	585.3	416.4	518.8	368.3	409.8	552.0	585.8
i) Total asset 5 top banks/total asset	76.8	76.3	91.2	90.6	61.4	71.0	65.7	64.3	96.1	94.4	45.2	44.9
j) Profit before income tax/average patrimony	24.7	25.0	12.4	16.4	20.0	18.9	20.9	24.7	30.3	24.7	15.8	14.1
k) Profit before income tax/average asset	2.4	2.5	1.4	1.9	1.7	1.7	1.8	2.0	2.6	2.3	2.1	1.8
l) Implicit margin of financial intermediation b/	9.6	9.2	6.7	6.8	11.1	9.4	10.7	9.7	12.7	12.1	2.8	2.7
m) Financial availabilities + investment/total liability	46.7	44.5	33.4	28.7	48.2	49.4	41.3	32.0	49.8	44.7	40.5	39.8
n) Number of banks	19	16	11	11	26	24	16	16	7	7	70	77

Source: Central American Monetary Council and Supervision of Banks and Central Banks.

a/ Non-performing portfolio: Costa Rica, El Salvador, Honduras, Nicaragua, and Panama, loans with payments 90 days or more overdue. Guatemala, loans with expired deadline.

b/ (Annualized financial income from intermediation/average total credit balance) - (Annualized financial expenditure annualized from intermediation/average balance of public deposits.)

4. Production, prices, remunerations, and employment

a) Economic activity

In 2006, the economies of the Central American Isthmus grew on average 6.1%, one and a half percentage points greater than the previous year and half a percentage point more than Latin America and the Caribbean's average. The majority of the countries experienced an increase greater than 4%, with the exception of Nicaragua. Panama (8.1%) and Costa Rica (7.9%) were the most dynamic economies. Honduras (6%), Guatemala (4.9%), and El Salvador (4.2%) showed growth rates that were greater than the previous year. It is important to highlight the growth of the latter two countries, since both suffered severe damage due to hurricanes that lashed the region in 2005. The only exception to the regional trend was Nicaragua, whose growth rate decreased from 4.3% in 2005 to 3.7%.

Box 4

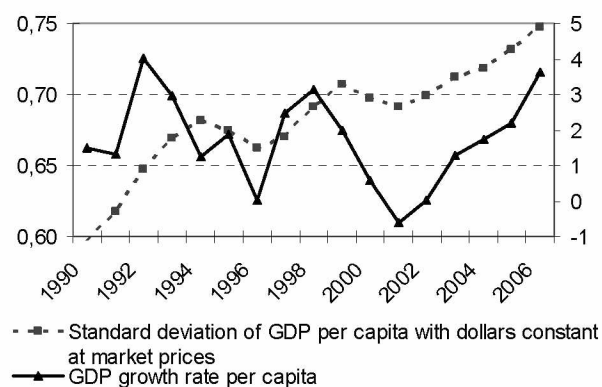
THE CENTRAL AMERICAN ISTHMUS: LONG-TERM ECONOMIC DIVERGENCE

Long-term analysis reveals continuous economic divergence, which is reflected in greater per capita GDP dispersion among the six countries. Among other reasons, this behaviour was the result of civil wars in previous decades, but the relations shown here are also valid for countries that did not suffer a civil war, which makes integration policy that tries to diminish these divergences more important. It is also interesting to note that periods of increased growth exacerbated the dispersion trend, since a positive relation seems to exist between the growth rate of GDP per capita and the standard deviation of the GDP per capita in the long term.

The fact that the countries with higher GDP per capita have grown at faster rates than the countries with lower GDP per capita is a sizeable challenge for the sub-region, since these trends aggravate some existing problems. For example, the higher growth rates in Costa Rica compared to Nicaragua increase the incentive to migrate from the less-developed country to the more-developed one.

Graph 17

THE CENTRAL AMERICAN ISTHMUS: DISPERSION OF PER CAPITA GDP AND PER CAPITA GDP GROWTH RATE, 1990-2006

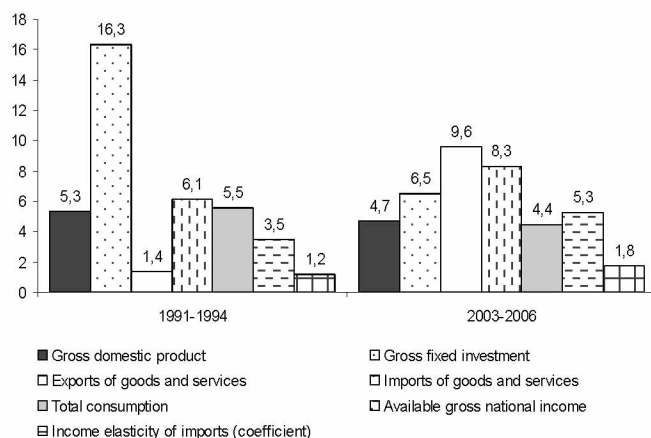


Source: ECLAC, based on official figures.

An important milestone in 2006 and also tied to the aforementioned divergence trends, was the fact that Panama and Costa Rica surpassed the 5,000 dollar per capita level measured at current prices. These two countries represent the most developed group, enjoying the highest growth rates in the sub-region. Guatemala and El Salvador make up the group in the middle within the Isthmus, with GDP per capita about half that of the most developed countries. Finally, Honduras and Nicaragua are the least developed countries in the Isthmus, with per capita GDP around 1,000 dollars.

Graph 18
THE CENTRAL AMERICAN ISTHMUS:
EVOLUTION OF MAIN MACROECONOMIC
AGGREGATES IN TWO RECENT TIME
PERIODS

(Average growth rates)



Source: ECLAC, based on official figures.

Analyzing the evolution of the main macroeconomic aggregates in two recent periods of boom, several differences are apparent. Growth between 1991 and 1994 was led by fixed gross investment, in large part the result of the end of the debt crisis of the 1980s and the recovery seen after civil wars.

In the most recent time period (2003-2006), growth is more balanced than in the other period, and the role that exports played, growing almost 10%, stands out. This, without a doubt, shows that the process of opening up of the economy has had certain success in dynamizing exports in the Isthmus. However,

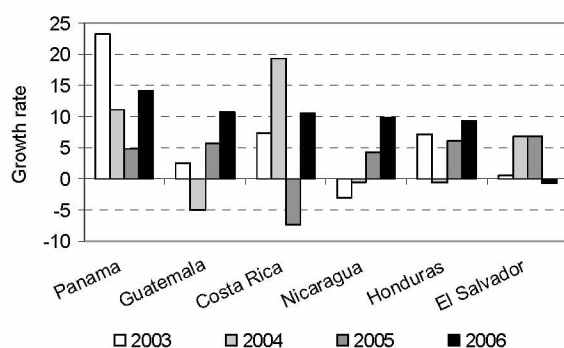
efforts are still needed to dynamize the rest of the economy, given that linkages with the export sector are very weak. Also evident is a strong increase in imports, in part financed by family remittances. Incidentally, the income elasticity of imports in the most recent period (1.8) is higher than at the beginning of the 1990s (1.2), an indication of integration into the world economy, that, at the same time, signifies a greater vulnerability of these economies.

In the latter period, available national income expanded at a rate greater than that of GDP growth, in contrast to the opposite situation seen at the beginning of the nineties. This is the result of the increasing amount of family remittances entering the economy, which more than counterbalances the deterioration in the relation of terms of trade. This situation is beneficial for the countries of the Isthmus, since the expansion of consumption is lower than GDP growth rate and national income growth, which means an increase in national savings. This allows for the financing of a higher level of investments, necessary for further growth, and, at the same time, accomplishes that without having to resort to foreign savings. Moreover, this helps diminish the external vulnerability of these economies.

In this context, in 2006 exports of goods and services grew 8.7% at 2000 prices, one percentage point less than the year before. Thus, the expansion of foreign demand has continued to be an important source of economic growth for the sub-region.

In turn, domestic demand was also dynamic and grew 6.5%, two percentage points more than in 2005, the result of an increase in consumption (5.6%), and was once again strengthened by the greater inflow of family remittances into Central America. In this aspect, noteworthy is the growth of private consumption (5.9%), compared with 4.4% in 2005. Furthermore, government consumption must be taken into consideration; it rose 3.5%, overcoming the slowdown experienced from 2003 to 2005. Fixed gross investment increased significantly (9.8%), six percentage points more than the year before. The above-average investment growth achieved by Panama (14%), El Salvador (10.8%) and Honduras (10.5%), induced by a large increase in investment in machinery, stands out.

Graph 19
THE CENTRAL AMERICAN ISTHMUS: FIXED
GROSS INVESTMENT, 2003-2006



Source: ECLAC, based on official figures.

As for global supply, imports of goods and services rose significantly (10%). Part of this expansion was due to the increase in international oil prices, but, just as the previous year, the larger purchase of intermediate inputs and

capital also influenced the sub-region. The manufacturing sector experienced a considerable increase (6.2%), to a good degree due to Costa Rica's exceptional performance (12.5%). The agriculture sector also enjoyed significant growth. It expanded at an average rate of 5.3%, Costa Rica (10.6%), Honduras (8.1%), and El Salvador (7.1%) in particular experiencing great growth. The mining industry, for its part, overcame the previous year's inactivity, growing energetically at a rate of 7.3%.

Construction showed the greatest increase of the economic sectors in the Isthmus (8.7%). The expansion was particularly manifest in Panama (17.4%), followed by Costa Rica (14.8%), Guatemala (6.1%), El Salvador (5.5%), and Honduras (2.4%). Nicaragua was the only country in the region that recorded a poor result in this sector (-8%). Basic services, telecommunications, transportation, and banking and financial services in general continued to make progress.

Box 5

DISASTERS IN 2006

In 2006, Latin America and the Caribbean were again hit by several disasters, above all meteorological in nature, although Central America and the Caribbean experienced fewer events than in the previous two years. This is associated with the beginning of El Niño season in the Pacific Ocean, which usually results in a weaker cyclone season in the Caribbean.

The most frequently occurring disasters were related to floods that affect large areas of land due to torrential rain, in many cases with precipitation levels above historic averages and during unusual times of the year. The beginning of El Niño, which even though as of yet has not had the severity as in previous years, could have more serious effects in 2007. Since this adds to complex conditions of vulnerability that are tied to high rates of poverty and marginality in which a good part of the population lives—in rural areas or informal outlying urban areas and on hillsides, or in areas high at risk to floods—, the effects have aggravated the already precarious living conditions and state of poverty.

Due to socioeconomic, physical, and institutional vulnerability, one of the most persistent results of natural disasters is the damage to the way of life of peasants, fishermen, small and medium business owners, and small scale merchants from towns in the interior of the countries and on the coasts, in addition to families losing patrimony. In several of the disasters, the disappearance of crops and smaller animals that make up part of the patrimony of women who live in rural areas was also reported. In the majority of the cases, the damages and losses were concentrated in the lower income population. Another characteristic is that the impact depending on gender was different, since women, in general, find themselves negatively affected more than men.

/Continued

Box 5 (Conclusion)

In most of the disasters, the impact was also concentrated in meager settlements, in inadequate areas such as river banks, and on inclines greater than 35°. Preexisting degraded environmental conditions magnify the damage caused due to the ground lacking the ability to retain water, the slow flow of water towards the ocean, obstructions in the mouth of rivers, and settlements in low lying areas, some below the level of high tide. Widespread deforestation is tied both to rural marginalization and to the urbanization process in marginal areas, without control, as observed particularly worrisome in major cities and especially in capitals.

In the Isthmus, the country most affected was Panama, where floods coincided with the occurrence of torrential rains that lasted for a week in October and November. Both phenomena occurred in the provinces of Chiriquí, eastern Panama, and in Colón and Coclé, western Panama. More than 2,300 people and almost 1,000 dwellings were affected. Also reported was that the Interamerican Highway was shut down for several days because of mudslides and flooding.

b) Prices, remunerations, and employment

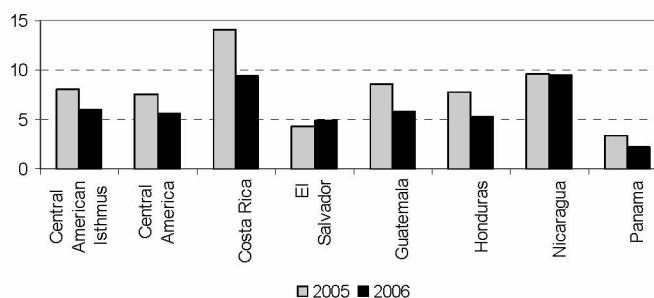
The inflation rate in the Isthmus fell two percentage points with respect to 2005, to arrive at 6%, and thus returned to patterns seen prior to the rise in international oil prices in 2003-2006. Given that oil prices are currently higher than at the beginning of the decade, the conclusion could be made that the economies have absorbed the external impact to a good degree. In spite of this, inflation was one percentage point greater than the average recorded in Latin America and the Caribbean as a whole. In contrast to the previous year, there is a greater convergence of inflation rates in the countries of the region, since almost all are in the single digits, with the exception being the one in Nicaragua. The highest and lowest inflation rates fell from 3.4% and 14.1% in 2005 to 2.2% and 10.6%. Furthermore, there was a widespread decrease in price levels, excluding El Salvador and Nicaragua where there was a slight increase.

Contributing to taming inflation were macro-economic discipline and the appreciation of national currencies in several countries, which to a certain degree tempered the increase in the prices of imported goods. In this context, the increase in prices was mainly associated with the increase in international prices of petroleum and derivatives, but to a much lesser degree than in 2004 and 2005.

The most recent data on employment in the sub-region show without a doubt that economic expansion was again reflected in the improvement in labour markets. The rate of the open urban unemployment in Costa Rica fell from 6.6% to 6%, in El Salvador from 7.2% to 6.6%, in Honduras

from 4.1% to 3.5%, in Nicaragua from 5.6% to 5.2%, and in Panama from 9.8% to 8.7%. This shows the need for high growth rates sustained at around 6% in order to substantially improve the unemployment problem that numerous families in these countries face.

Graph 20
THE CENTRAL AMERICAN ISTHMUS:
INFLATION, 2005 AND 2006



Source: ECLAC, based on official figures.

In the same sense, favourable economic conditions were reflected in real wages. The increase in minimum wage and nominal wage in countries like El Salvador—where minimum wage rose from 3% to 10% for employees in the public sector, industrial, commercial, service, and in-bond assembly plant industries—favoured greater real acquisition power for the people, after several decades of decline. In Panama, minimum wage increased 8% beginning in April, the first adjustment in three years. In other countries, adjustments were to a lesser extent. In a context in which inflation rates were lower than in 2005, this meant real increases in almost all of the countries.

5. Prospects for 2007

Global growth should record a slight slowdown ...

Estimates of global growth for 2007 (4.5%) point towards a figure half a point less than that recorded in 2006 (5.1%), which means growth that is still robust. Global growth should see a composition change, since the United States should experience a rate that is lower than it was in 2006 due to a weakening of the real estate market. The Asian countries should observe expansion similar to the previous year. To this is added a prediction of a performance for the European Union and Japan that is slightly better than the year before. As for the volume of international trade, it should not grow as fast as the previous year, dropping from a rate of 10.1% to 7.2%.

Table 5

PROJECTIONS OF GDP GROWTH FOR THE WORLD, THE UNITED STATES AND GLOBAL
TRADE IN 2007 MADE IN DIFFERENT INTERNATIONAL ORGANIZATIONS
AND RESEARCH CENTERS

	United Nations	International Monetary Fund	OECD	The Economist Intelligence Unit
Growth of global GDP	4.5	4.9	...	5.1
Growth of global trade	6.8	7.0	7.5	7.1
GDP for the United States	2.1	2.2	2.1	1.9

Note: The sources for the United Nations is *World Economic Situation and Prospects 2007* (July 2007); for the IMF, *World Economic Outlook* (July 2007); for OECD the, *Economic Outlook* (May 2007); for the EIU, *Country Forecast* (September 2007).

... same as the countries of Latin America and the Caribbean.

Growth estimates for Latin America and the Caribbean predict lesser growth than in 2005 (5% versus 5.6%). Compared with developing countries, which should grow 5.9%, and economies in transition (6.5%), this is an inferior performance. Even though growth rates for Latin America and the Caribbean are higher than some years ago, their behaviour continues to be unfavourable compared to other regions with similar characteristics.

The global economic situation continues to be favourable...

An abundance of liquidity persists in the global economy, even though interest rates have risen from the historically low levels seen some years ago. This is reflected in the historic lows

recorded on the EMBI + index (*Emerging Markets Bond Index* +). Even though it is foreseen that financing conditions will continue to be relatively favourable during 2007, less liquidity is expected due to the more restrictive monetary policies in many countries. The preferences of investors will most likely change, moving towards less risky assets. The high prices of raw materials should lower slightly, although the price of oil will remain high and volatile.

... but there are serious risks that could substantially affect growth.

If international oil prices increase substantially as the result of geopolitical tensions, the global economy could be impacted more seriously than it has been until now. It is likely that the global imbalances stemming from the United States insufficient saving will decline slightly in 2007. If a rough landing instead of a

soft one occurs in the United States economy, projections for global growth should decrease substantially. The real-estate market crisis in the United States has already affected the financial system which could have more severe consequences for the economy as a whole. At the moment it seems that the impact on the real economy would be small, both in the US and in the global economy. In addition, in order to grow, the world economy today depends less on the US economy, since some others, notably the European, Japanese, Chinese and the Indian one, provide momentum to the rest of the world. However, the probability of the US economy entering into a recession is today much higher than at the beginning of 2007.

For the economies of the Isthmus, the situation will not change substantially...

The countries of the Central American Isthmus should face conditions similar to those of 2006. On the plus side, external demand is expected to remain relatively vigorous. The arrival of foreign direct investment, remittances, and tourism should be abundant, but not greater than in 2006. On the negative side, the prices of raw materials, and especially of oil, will remain high, and therefore terms of trade will continue to deteriorate. Finally, the countries of the Isthmus, along with Mexico and the Dominican Republic, are more susceptible to suffer the effects of an abrupt slowdown of the United States economy due to their greater dependence on this country. Costa Rica and Panama are exceptions to this because they are less dependent on the United States economy and enjoy greater diversification; thus the impact felt by these two countries should be lesser.

If a prolonged crisis that would affect the whole of the US economy is avoided, and the financial sector crisis eases, the economies of the

Isthmus will not be affected, or the impact would be very small. This scenario seems to be the most probable one at the moment. A more pessimistic scenario would be the one of a crisis in the US that affects the rest of the world. The economies of the sub-region would be affected through one or more of the following channels: reduction of the external demand, decrease of the prices of commodities and agricultural products, less abundant foreign direct investment, higher costs of external financing, and less significant inflow of family remittances.

On the other hand, these economies have reduced significantly their external debt, have been recording primary fiscal surplus (net of interest payment), have unprecedented levels of international reserves, and a relatively low inflation rates. As a consequence, they need less external financing than before, and are less vulnerable to external shocks. Their macroeconomic situation is much more comfortable than before.

... so, a similar growth rate is expected in 2007.

The growth rate seen in 2006 of 6.1% will probably be repeated in 2007. It is foreseen that the economies of the Isthmus will record a growth rate of 6.0%, still relatively high compared to the performance observed during the present decade. Furthermore, the process of rates converging to the average of the Isthmus will continue. It is likely that El Salvador and Guatemala will be the only countries whose growth rates will be higher than those in 2006 due to the thrust coming from construction, remittances, and investments. This positive scenario, however, could suffer complications if the aforementioned risks actually materialize. Domestically, violence and the great deal of insecurity will continue to weigh heavily on some countries in the Isthmus, not without a noticeable economic cost.³

Table 6

THE CENTRAL AMERICAN ISTHMUS: PROJECTIONS OF
GDP GROWTH FOR 2007

(Variation rates)

	2005	2006 a/	2007 b/
Central American Isthmus	4.6	6.1	6.0
Central America	4.1	5.6	5.4
Costa Rica	5.9	7.9	6.5
El Salvador	2.8	4.2	4.5
Guatemala	3.5	4.9	5.5
Honduras	4.1	6.0	5.5
Nicaragua	4.3	3.7	3.5
Panama	6.9	8.1	8.5

Source: ECLAC, based on official figures.

a/ Estimated figures.

b/ Projections.

Economic policies will continue in the same direction...

The mix of macroeconomic policies should continue without change. As for the fiscal situation, stability should be sought, as well as increasing fiscal inflows with improved fiscalization, instead of trying to raise tax rates. Monetary policy will continue to seek a reasonable balance between support of economic activity and control of inflation; thus, inflation will remain higher than the international rate, but in all of the countries of the Isthmus at a level firmly below 10%. In turn, exchange-rate policy will continue to try to prevent volatility, since it can do little with respect to the appreciation of the exchange rate.

... and progress will continue to be made in the integration process and the FTAs

It is foreseen that the process of economic integration in Central America will come closer to being realized with the Central American Customs Union going into effect. In addition to this process are the effects of DR-CAFTA, which should be felt for the first time for a whole year. This should provide decision makers and analysts with more information in order to produce an evaluation of the treaty's impact based more solidly on evidence. It is estimated that during the first half of 2007 negotiations will begin on the Association Agreement between the Central American Isthmus and the European Union.

NOTES

¹ In this report, the Central American Isthmus refers to six countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama), while Central America denotes the same countries, but does not include Panama.

² This subject is dealt with in more detail later on in the section on trade policy.

³ For more information, see Preliminary Overview of the Latin American and Caribbean Economies 2006.

Statistical Annex

Table A-1

CENTRAL AMERICAN ISTHMUS: MAIN INDICATORS, 2000-2006

Country	2000	2001	2002	2003	2004	2005	2006
Area (km²)							
Costa Rica	50 700	50 700	50 700	50 700	50 700	50 700	50 700
El Salvador	21 041	21 041	21 041	21 041	21 041	21 041	21 041
Guatemala	108 889	108 889	108 889	108 889	108 889	108 889	108 889
Honduras	111 900	111 900	111 900	111 900	111 900	111 900	111 900
Nicaragua	130 000	130 000	130 000	130 000	130 000	130 000	130 000
Panama	75 517	75 517	75 517	75 517	75 517	75 517	75 517
Population (thousands of inhabitants)							
Costa Rica	3 925,3	4 008,3	4 089,6	4 169,7	4 248,5	4 325,8	4 401,8
El Salvador	6 276,0	6 396,9	6 517,8	6 638,1	6 757,4	6 874,9	6 980,3
Guatemala	11 225,4	11 503,7	11 791,1	12 087,0	12 390,5	12 700,6	13 018,8
Honduras	6 231,0	6 361,0	6 492,0	6 623,0	6 756,0	6 893,0	7 033,0
Nicaragua	5 071,7	5 205,0	5 341,9	5 482,3	5 626,5	5 774,4	5 890,3
Panama	2 948,0	3 004,0	3 060,1	3 116,3	3 172,4	3 228,2	3 284,0
Population growth rates (percentages)							
Costa Rica	2,3	2,1	2,0	2,0	1,9	1,8	1,8
El Salvador	2,0	1,9	1,9	1,8	1,8	1,7	1,5
Guatemala	2,4	2,5	2,5	2,5	2,5	2,5	2,5
Honduras	2,1	2,1	2,1	2,0	2,0	2,0	2,0
Nicaragua	2,8	2,6	2,6	2,6	2,6	2,6	2,0
Panama	1,9	1,9	1,9	1,8	1,8	1,8	1,7
Economically active population (thousands of inhabitants)							
Costa Rica	...	2 964,5	3 060,8	3 167,2	3 250,5	3 349,7	3 349,7
El Salvador	4 778,0	4 947,2	5 028,6	5 066,9	5 240,8	5 330,4	5 462,1
Guatemala	3 615,7	3 771,8	4 923,6	5 065,4	4 990,0	...	...
Honduras	-	2 381,7	2 444,8	2 556,5	2 592,2	2 651,3	2 722,7
Nicaragua	...	3 653,2	...	3 870,3	3 977,7	4 096,7	4 203,6
Panama	1 952,7	2 010,2	2 054,3	2 121,9	2 169,2	2 216,2	2 263,0
Net participation rate (percentage of EAP)							
Costa Rica	53,6	55,8	55,2	55,5	54,4	56,8	56,6
El Salvador	52,3	53,3	51,2	53,4	51,7	52,4	52,6
Guatemala	56,3	56,9	61,4	60,9	56,1	...	...
Honduras	...	51,8	50,9	51,3	50,6	49,2	50,7
Nicaragua	...	52,0	...	53,3	53,1	53,8	52,4
Panama	59,9	60,5	62,6	62,8	63,3	63,5	62,5
Open unemployment (percentage of active workforce)							
Costa Rica	5,2	6,1	6,4	6,7	6,5	6,6	6,0
El Salvador	7,0	7,0	6,2	6,9	6,8	7,2	6,6
Guatemala	...	...	3,1	3,4	3,1	...	...
Honduras	-	3,9	3,8	5,1	5,9	4,1	3,5
Nicaragua	...	10,7	...	7,0	6,5	5,6	5,2
Panama	13,5	14,0	13,5	13,1	11,8	9,8	8,7

/Continued

Cuadro A-1 (Conclusion)

Country	2000	2001	2002	2003	2004	2005	2006
Gross domestic product (millions of current dollars)							
Costa Rica	15 946,5	16 403,4	16 844,3	17 514,2	18 592,8	19 973,0	22 145,1
El Salvador	13 134,1	13 812,7	14 306,7	15 046,7	15 821,6	16 974,0	18 573,5
Guatemala	19 307,9	18 724,6	20 805,4	21 952,2	23 998,7	27 321,9	30 324,0
Honduras	5 954,4	6 327,4	6 508,4	6 866,2	7 454,2	8 299,3	9 236,2
Nicaragua	3 938,1	4 102,4	4 026,0	4 101,5	4 464,7	4 854,6	5 300,8
Panama	11 620,5	11 807,6	12 272,4	12 933,2	14 179,3	15 483,3	17 097,1
Per capita GDP (current dollars)							
Costa Rica	4 062,5	4 092,4	4 118,8	4 200,4	4 376,3	4 617,1	5 030,9
El Salvador	2 092,8	2 159,3	2 195,0	2 266,7	2 341,4	2 469,0	2 660,9
Guatemala	1 720,0	1 627,7	1 764,5	1 816,2	1 936,9	2 151,2	2 329,3
Honduras	955,6	994,7	1 002,5	1 036,7	1 103,3	1 204,0	1 313,3
Nicaragua	776,5	788,2	753,7	748,1	793,5	840,7	899,9
Panama	3 941,8	3 930,7	4 010,5	4 150,2	4 469,6	4 796,3	5 206,2
Nominal exchange rate a/							
Costa Rica	308,19	328,87	359,82	398,66	437,94	477,79	511,30
El Salvador	8,75	8,75	8,75	8,75	8,75	8,75	8,75
Guatemala	7,76	7,85	7,81	7,93	7,94	7,62	7,59
Honduras	15,01	15,65	16,61	17,54	18,41	19,00	19,03
Nicaragua	12,68	13,44	14,25	15,11	15,94	16,73	17,57
Panama	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Human development index b/							
Costa Rica	0,829	0,832	0,834	0,838	0,841	...	...
El Salvador	0,713	0,719	0,720	0,722	0,729	...	...
Guatemala	0,642	0,652	0,649	0,663	0,673	...	...
Honduras	...	0,667	0,672	0,667	0,683	...	...
Nicaragua	0,643	0,643	0,667	0,690	0,698	...	...
Panama	0,791	0,788	0,791	0,804	0,809	...	...

Source: ECLAC, based on data collected in household surveys.

a/ For Costa Rica and El Salvador, colons; Guatemala, quetzals, Honduras, lempiras; Nicaragua, cordobas, and Panamá, balboas per U. S. dólar, respectively.

b/ The HDI is measured on a scale of 0 to 1; the closer a reading is to 1, the greater the degree of development.

Table A-2

CENTRAL AMERICAN ISTHMUS: MAIN ECONOMIC INDICATORS, 2000-2006

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Growth rates							
Economic activity and prices							
Gross National Product c/	3,0	1,7	2,8	3,8	4,2	4,6	6,1
Per capita GDP c/	0,7	-0,6	0,5	1,5	2,0	2,4	4,0
Gross fixed capital formation	-5,0	-4,8	2,4	5,1	3,1	3,8	9,8
CPI (December - December)	5,9	6,2	5,7	5,5	8,1	8,1	6,0
Percentages							
Fiscal deficit/GDP (weighted) d/	2,5	3,1	2,7	3,2	2,4	2,0	1,0
Millions of dollars							
External sector							
Current account balance	-3 927,2	-3 284,1	-3 573,4	-4 069,0	-4 812,5	-4 784,2	-4 877,2
Income balance	-2 610,0	-2 029,7	-1 752,9	-2 714,8	-2 803,7	-2 713,8	-2 328,7
Net current transfers	4 092,8	5 087,0	5 917,4	6 762,6	8 173,3	9 738,3	11 379,6
Financial and capital account e/	4 054,9	3 962,1	3 631,6	4 570,2	5 315,3	6 268,0	6 728,4
Net foreign direct investment	1 984,2	2 005,2	1 718,2	2 067,1	2 903,3	3 226,4	5 192,3
Overall balance	127,7	678,0	58,2	501,3	502,8	1 483,8	1 851,2
Net resource transfer	1 767,8	2 222,8	2 302,9	2 259,4	2 913,1	3 612,4	4 617,0
External public debt	24 990,6	26 182,1	27 553,3	29 820,3	30 315,7	29 616,2	28 584,3
Indices (2000 = 100)							
Terms of trade of goods	100,0	99,2	97,6	94,3	92,1	90,2	89,8

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Based on figures with dollars at constant 2000 prices.

d/ Weighted average.

e/ Includes errors and omissions.

Table A-3

CENTRAL AMERICAN ISTHMUS: MAIN ECONOMIC INDICATORS, 2000-2006

(Growth rates)

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Gross domestic product c/							
Central American Isthmus	3,0	1,7	2,8	3,8	4,2	4,6	6,1
Central America	3,0	1,9	2,9	3,7	3,5	4,1	5,6
Costa Rica	1,8	1,1	2,9	6,4	4,3	5,9	7,9
El Salvador	2,2	1,7	2,3	2,3	1,8	2,8	4,2
Guatemala	3,6	2,3	3,9	2,5	3,2	3,5	4,9
Honduras	5,7	2,6	2,7	3,5	5,0	4,1	6,0
Nicaragua	4,1	3,0	0,8	2,5	5,3	4,3	3,7
Panama	2,7	0,6	2,2	4,3	7,4	6,9	8,1
Per capita GDP							
Central American Isthmus	0,7	-0,6	0,5	1,5	2,0	2,4	4,0
Central America	0,7	-0,4	0,6	1,4	1,3	1,9	3,5
Costa Rica	-0,5	-1,0	0,8	4,4	2,4	4,0	6,0
El Salvador	0,2	-0,2	0,4	0,4	0,0	1,0	2,6
Guatemala	1,2	-0,1	1,3	0,0	0,6	0,9	2,3
Honduras	3,6	0,5	0,6	1,4	3,0	2,0	3,9
Nicaragua	1,3	0,3	-1,8	-0,1	2,6	1,7	1,7
Panama	0,8	-1,3	0,4	2,4	5,5	5,1	6,3
Gross fixed capital formation							
Central American Isthmus	-5,0	-4,8	2,4	5,1	3,1	3,8	9,8
Central America	-4,4	-0,2	3,8	2,4	1,7	3,6	8,9
Costa Rica	-0,9	2,6	6,6	7,2	-0,5	6,0	9,3
El Salvador	5,2	1,5	3,3	2,5	-5,0	5,7	10,8
Guatemala	-8,8	1,8	9,3	-3,1	-0,5	4,3	9,8
Honduras	-7,6	-7,7	-5,9	7,3	19,3	-7,4	10,5
Nicaragua	-11,1	-5,4	-6,3	0,6	6,7	6,8	-0,8
Panama	-7,3	-25,7	-5,6	23,3	11,1	4,8	14,0

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Based on figures with dollars at constant 2000 prices.

Table A-4

CENTRAL AMERICAN ISTHMUS: TRADE INDICATORS OF GOODS, FOB, 2000-2006

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Millions of dollars							
Exports of goods, fob							
Central American Isthmus	20 589	19 498	19 315	20 593	22 942	26 227	29 381
Central America	14 751	13 505	14 000	15 522	16 864	18 636	20 872
Costa Rica	5 813	4 923	5 270	6 163	6 370	7 100	8 238
El Salvador	2 963	2 892	3 020	3 153	3 337	3 432	3 567
Guatemala	3 082	2 860	2 819	3 060	3 368	3 701	4 046
Honduras	2 012	1 935	1 977	2 090	2 421	2 750	3 043
Nicaragua	881	895	914	1 056	1 369	1 654	1 978
Panama	5 839	5 992	5 315	5 072	6 078	7 591	8 509
Import of goods, fob							
Central American Isthmus	-26 932	-26 973	-28 232	-30 204	-34 716	-39 852	-45 941
Central America	-19 951	-20 284	-21 882	-23 929	-27 099	-30 945	-35 631
Costa Rica	-6 024	-5 743	-6 548	-7 252	-7 791	-9 242	-10 842
El Salvador	-4 703	-4 824	-4 885	-5 439	-5 999	-6 440	-7 257
Guatemala	-4 742	-5 142	-5 791	-6 176	-7 175	-8 068	-9 075
Honduras	-2 680	-2 769	-2 806	-3 035	-3 677	-4 239	-5 037
Nicaragua	-1 802	-1 805	-1 853	-2 027	-2 457	-2 956	-3 422
Panama	-6 981	-6 689	-6 350	-6 274	-7 617	-8 907	-10 310
Growth rates							
Exports of goods, fob							
Central American Isthmus	4,6	-5,3	-0,9	6,6	11,4	14,3	12,0
Central America	2,5	-8,4	3,7	10,9	8,6	10,5	12,0
Costa Rica	-11,6	-15,3	7,0	16,9	3,4	11,5	16,0
El Salvador	16,9	-2,4	4,4	4,4	5,8	2,9	3,9
Guatemala	10,8	-7,2	-1,4	8,5	10,1	9,9	9,3
Honduras	14,6	-3,8	2,2	5,7	15,8	13,6	10,7
Nicaragua	17,6	1,7	2,1	15,5	29,6	20,8	19,6
Panama	10,4	2,6	-11,3	-4,6	19,8	24,9	12,1
Import of goods, fob							
Central American Isthmus	7,6	0,2	4,7	7,0	14,9	14,8	15,3
Central America	8,4	1,7	7,9	9,4	13,2	14,2	15,1
Costa Rica	0,5	-4,7	14,0	10,8	7,4	18,6	17,3
El Salvador	20,9	2,6	1,3	11,4	10,3	7,4	12,7
Guatemala	13,4	8,4	12,6	6,6	16,2	12,4	12,5
Honduras	6,8	3,3	1,3	8,2	21,1	15,3	18,8
Nicaragua	-1,0	0,2	2,7	9,4	21,2	20,3	15,8
Panama	5,3	-4,2	-5,1	-1,2	21,4	16,9	15,7
Indices (2000 = 100)							
Terms of trade of goods, fob/fob							
Central American Isthmus	100,0	99,2	97,6	94,3	92,1	90,2	89,8
Central America	100,0	97,5	95,9	93,2	90,9	88,9	86,8
Costa Rica	100,0	98,4	96,9	95,5	91,9	88,3	87,1
El Salvador	100,0	102,5	101,6	97,7	96,8	96,8	94,9
Guatemala	100,0	96,7	95,8	93,0	92,1	91,3	89,6
Honduras	100,0	94,8	92,0	88,0	87,2	87,2	83,9
Nicaragua	100,0	88,4	87,0	84,1	82,5	81,4	79,8
Panama	100,0	102,7	101,6	97,2	95,3	93,5	99,2

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table A-5

CENTRAL AMERICAN ISTHMUS: BALANCE OF PAYMENT INDICATORS, 2000-2006

(Millions of dollars)

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Balance of the current account							
Central American Isthmus	-3 927,2	-3 284,1	-3 573,4	-4 069,0	-4 812,5	-4 784,2	-4 877,2
Central America	-3 254,7	-3 113,8	-3 477,9	-3 566,3	-3 751,0	-4 002,6	-4 499,0
Costa Rica	-690,7	-602,9	-856,9	-880,0	-795,8	-971,0	-1 077,3
El Salvador	-430,5	-150,3	-405,1	-702,3	-631,8	-786,5	-854,9
Guatemala	-1 049,0	-1 252,9	-1 234,9	-1 039,1	-1 210,7	-1 387,3	-1 533,4
Honduras	-242,6	-302,6	-236,9	-281,7	-455,6	-113,0	-178,8
Nicaragua	-841,9	-805,0	-744,1	-663,1	-657,1	-744,9	-854,6
Panama	-672,5	-170,3	-95,5	-502,7	-1 061,5	-781,6	-378,2
Trade balance of goods and services							
Central American Isthmus	-5 410,0	-6 341,3	-7 737,9	-8 116,8	-10 182,1	-11 808,7	-13 928,1
Central America	-5 120,7	-6 535,0	-7 670,9	-8 109,6	-9 922,2	-11 908,0	-14 336,9
Costa Rica	468,4	-74,5	-592,6	-313,0	-563,9	-1 026,5	-1 388,9
El Salvador	-1 974,5	-2 182,9	-2 104,6	-2 393,5	-2 739,4	-3 079,6	-3 670,6
Guatemala	-1 707,9	-2 165,3	-2 892,7	-3 183,3	-3 937,0	-4 608,7	-5 281,6
Honduras	-856,3	-1 061,9	-1 012,5	-1 129,6	-1 470,3	-1 751,5	-2 410,1
Nicaragua	-1 050,3	-1 050,4	-1 068,5	-1 090,2	-1 211,6	-1 441,7	-1 585,7
Panama	-289,3	193,7	-67,0	-7,2	-259,9	99,3	408,8
Net current transfer balance							
Central American Isthmus	4 092,8	5 087,0	5 917,4	6 762,6	8 173,3	9 738,3	11 379,6
Central America	3 915,8	4 860,9	5 673,6	6 516,2	7 953,7	9 494,9	11 121,7
Costa Rica	93,4	150,9	175,5	208,8	212,4	270,4	310,2
El Salvador	1 797,1	2 298,3	2 022,9	2 114,3	2 567,7	2 864,6	3 334,8
Guatemala	868,2	996,8	1 976,2	2 461,9	3 044,6	3 557,5	4 103,1
Honduras	746,9	929,2	968,7	1 105,8	1 374,0	1 978,6	2 518,1
Nicaragua	410,2	485,7	530,3	625,4	755,0	823,8	855,5
Panama	177,0	226,1	243,8	246,4	219,6	243,4	257,9
Financial and capital account c/							
Central American Isthmus	4 054,9	3 962,1	3 631,6	4 570,2	5 315,3	6 268,0	6 728,4
Central America	3 459,6	3 159,2	3 390,1	4 334,6	4 649,2	4 811,6	6 174,6
Costa Rica	538,5	616,1	1 019,9	1 218,9	876,1	1 364,4	2 111,1
El Salvador	385,0	-27,4	281,6	1 018,5	579,3	727,6	926,4
Guatemala	1 703,3	1 726,7	1 256,7	1 588,7	1 819,4	1 641,3	1 812,1
Honduras	188,9	302,1	300,5	55,0	828,5	329,9	449,6
Nicaragua	643,8	541,7	531,4	453,5	545,9	748,3	875,4
Panama	595,3	802,9	241,5	235,6	666,1	1 456,4	553,8
Overall balance							
Central American Isthmus	127,7	678,0	58,2	501,3	502,8	1 483,8	1 851,2
Central America	204,9	45,4	-87,8	768,4	898,2	809,0	1 675,6
Costa Rica	-152,2	13,1	163,0	338,9	80,3	393,5	1 033,7
El Salvador	-45,5	-177,7	-123,5	316,2	-52,5	-58,9	71,5
Guatemala	654,4	473,8	21,8	549,6	608,7	254,0	278,7
Honduras	-53,7	-0,5	63,6	-226,7	372,9	217,0	270,9
Nicaragua	-198,1	-263,3	-212,7	-209,6	-111,2	3,4	20,8
Panama	-77,2	632,6	146,0	-267,1	-395,4	674,8	175,6

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Includes errors and omissions.

Table A-6

CENTRAL AMERICAN ISTHMUS: PUBLIC DEBT INDICATORS, 2000-2006

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Millions of dollars							
Stock of external public debt							
Central American Isthmus	24 990,6	26 182,1	27 553,3	29 820,3	30 315,7	29 616,2	28 584,3
Central America	19 386,5	19 919,3	21 204,3	23 316,6	23 096,5	22 036,5	20 795,9
Costa Rica	3 150,6	3 242,5	3 337,7	3 753,0	3 883,7	3 625,8	3 607,5
El Salvador	2 831,3	3 147,7	3 987,1	4 717,2	4 777,9	4 976,1	5 692,6
Guatemala	2 643,7	2 925,0	3 119,1	3 467,2	3 843,8	3 723,2	3 958,3
Honduras	4 101,0	4 229,6	4 397,8	4 783,4	5 200,5	4 363,9	3 010,8
Nicaragua	6 659,9	6 374,5	6 362,6	6 595,8	5 390,6	5 347,5	4 526,7
Panama	5 604,1	6 262,8	6 349,0	6 503,7	7 219,2	7 579,7	7 788,4
Percentages of GDP							
Stock of external public debt							
Central American Isthmus	35,8	36,8	36,9	38,0	35,9	31,9	27,8
Central America	33,3	33,6	33,9	35,6	32,8	28,5	24,3
Costa Rica	19,8	19,8	19,8	21,4	20,9	18,2	16,3
El Salvador	21,6	22,8	27,9	31,4	30,2	29,3	30,6
Guatemala	13,7	15,6	15,0	15,8	16,0	13,6	13,1
Honduras	68,9	66,8	67,6	69,7	69,8	52,6	32,6
Nicaragua	169,1	155,4	158,0	160,8	120,7	110,2	85,4
Panama	48,2	53,0	51,7	50,3	50,9	49,0	45,6
Millions of dollars							
Stock of internal public debt							
Central American Isthmus c/	9 559,1	10 281,7	12 021,2	12 240,1	13 480,0	14 039,2	14 748,1
Central America c/	7 358,1	8 084,0	9 793,2	10 082,1	10 722,4	11 387,6	12 083,7
Costa Rica	4 090,4	4 378,2	4 579,9	4 497,5	4 896,4	4 838,9	5 107,8
El Salvador	1 965,8	2 345,2	2 379,7	2 386,0	2 504,7	2 727,6	2 666,6
Guatemala	1 118,1	1 164,5	1 050,6	1 375,4	1 659,7	2 161,8	2 654,7
Honduras	183,8	196,0	206,4	397,6	322,8	322,4	421,1
Nicaragua	...	...	1 576,7	1 425,6	1 338,9	1 337,0	1 233,5
Panama	2 201,0	2 197,7	2 228,0	2 158,0	2 757,6	2 651,6	2 664,4
Percentage of GDP							
Stock of internal public debt							
Central American Isthmus c/	13,7	14,4	16,1	15,6	16,0	15,1	14,4
Central America c/	12,6	13,6	15,7	15,4	15,2	14,7	14,1
Costa Rica	25,7	26,7	27,2	25,7	26,3	24,2	23,1
El Salvador	15,0	17,0	16,6	15,9	15,8	16,1	14,4
Guatemala	5,8	6,2	5,0	6,3	6,9	7,9	8,8
Honduras	3,1	3,1	3,2	5,8	4,3	3,9	4,6
Nicaragua	...	...	...	34,8	30,0	27,5	23,3
Panama	18,9	18,6	18,2	16,7	19,4	17,1	15,6

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ After 2003 Nicaragua is included.

Table A-7

CENTRAL AMERICAN ISTHMUS: INTERREGIONAL EXPORTS, 2000-2006

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Value of exports to the rest of the Central American Isthmus (Millions of dollars)							
Central American Isthmus	2 949,8	3 220,9	3 145,1	3 355,2	3 797,0	4 182,6	4 756,1
Central America	2 744,5	3 062,3	2 992,8	3 208,0	3 653,1	4 033,4	4 595,2
Costa Rica	663,2	675,9	633,5	696,5	797,7	903,8	1 046,1
El Salvador	776,1	771,6	785,4	792,5	867,5	964,2	1 090,4
Guatemala	870,0	1 103,0	1 076,2	1 181,0	1 355,7	1 477,3	1 695,3
Honduras	268,5	328,6	297,1	310,2	379,1	393,2	406,0
Nicaragua	166,6	183,2	200,6	227,8	253,2	294,9	357,4
Panama	205,3	158,6	152,3	147,2	143,9	149,2	160,9
Growth rates							
Central American Isthmus	4,8	9,2	-2,4	6,7	13,2	10,2	13,7
Central America	6,4	11,6	-2,3	7,2	13,9	10,4	13,9
Costa Rica	4,0	1,9	-6,3	9,9	14,5	13,3	15,7
El Salvador	15,1	-0,6	1,8	0,9	9,5	11,1	13,1
Guatemala	1,8	26,8	-2,4	9,7	14,8	9,0	14,8
Honduras	3,1	22,4	-9,6	4,4	22,2	3,7	3,3
Nicaragua	8,3	10,0	9,5	13,6	11,1	16,5	21,2
Panama	-12,4	-22,7	-4,0	-3,3	-2,3	3,7	7,8

Source: ECLAC, based on official figures from the Central Banks and the Comptroller General of the Republic of Panama.

a/ Preliminary figures.

b/ Estimated figures.

Table A-8

CENTRAL AMERICAN ISTHMUS: EVOLUTION OF THE VALUE ADDED OF IN-BOND ASSEMBLY
PLANT ACTIVITY AND FREE TRADE ZONES, 2000-2006

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Millions of dollars							
Central American Isthmus	2 738,3	2 007,4	2 066,8	2 943,5	2 802,4	2 596,9	2 883,4
Central America	2 729,5	2 005,8	2 066,2	2 942,7	2 802,4	2 596,9	2 883,4
Costa Rica	1 241,6	450,6	521,2	1 178,0	917,3	671,9	826,0
El Salvador	456,3	489,7	474,9	493,8	463,6	411,6	398,2
Guatemala	373,8	396,2	345,8	428,1	439,2	322,1	335,0
Honduras	575,4	560,8	612,8	710,0	815,3	969,2	1 062,2
Nicaragua	82,4	108,5	111,5	132,8	167,0	222,2	262,0
Panama	8,8	1,6	0,6	0,8	-	-	-
Growth rates							
Central American Isthmus	-11,3	-26,7	3,0	42,4	-4,8	-7,3	11,0
Central America	-11,5	-26,5	3,0	42,4	-4,8	-7,3	11,0
Costa Rica	-31,2	-63,7	15,7	126,0	-22,1	-26,8	22,9
El Salvador	20,5	7,3	-3,0	4,0	-6,1	-11,2	-3,2
Guatemala	29,9	6,0	-12,7	23,8	2,6	-26,7	4,0
Honduras	6,9	-2,5	9,3	15,9	14,8	18,9	9,6
Nicaragua	10,5	31,7	2,8	19,1	25,8	33,1	17,9
Panama	1 660,0	-81,8	-62,5	33,3	-	-	-

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table A-9

CENTRAL AMERICAN ISTHMUS: FOREIGN TRAVEL ACCOUNT BALANCE, 2000-2006

(Millions of dollars)

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Total							
Income	2 847,8	2 804,7	2 974,1	3 397,3	3 932,2	4 509,1	5 250,0
Expenditure	-1 218,8	-1 162,3	-1 209,0	-1 388,1	-1 670,9	-1 884,3	-2 116,2
Balance	1 629,1	1 642,4	1 765,0	2 009,2	2 261,3	2 624,9	3 133,8
Costa Rica							
Income	1 302,4	1 173,3	1 160,7	1 293,1	1 458,5	1 670,8	1 727,5
Expenditure	-485,4	-364,4	-344,9	-353,2	-405,7	-469,5	-458,6
Balance	817,1	808,9	815,7	939,9	1 052,9	1 201,3	1 268,9
El Salvador							
Income	216,9	201,1	245,2	383,1	440,8	542,9	870,7
Expenditure	-165,2	-195,3	-191,1	-229,6	-302,2	-346,7	-517,8
Balance	51,7	5,8	54,1	153,5	138,6	196,2	352,9
Guatemala							
Income	482,3	561,5	619,6	620,7	776,4	845,8	972,9
Expenditure	-181,8	-225,5	-275,6	-312,0	-390,6	-444,0	-488,4
Balance	300,5	336,0	344,0	308,7	385,8	401,8	484,5
Honduras							
Income	259,8	256,4	301,0	355,6	413,5	463,5	488,3
Expenditure	-119,6	-127,6	-149,2	-210,6	-244,2	-262,1	-283,2
Balance	140,2	128,8	151,8	145,0	169,3	201,4	205,2
Nicaragua							
Income	128,6	135,3	134,6	160,2	192,0	206,3	230,6
Expenditure	-78,4	-76,0	-69,4	-75,0	-89,3	-90,8	-97,0
Balance	50,2	59,3	65,2	85,2	102,7	115,5	133,6
Panama							
Income	457,8	477,1	513,0	584,6	651,0	779,8	960,0
Expenditure	-188,4	-173,5	-178,8	-207,7	-238,9	-271,1	-271,2
Balance	269,4	303,6	334,2	376,9	412,1	508,7	688,8

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table A-10

CENTRAL AMERICAN ISTHMUS: GARMENT EXPORT TO THE
UNITED STATES, 2000-2006 a/

	2000	2001	2002	2003	2004	2005	2006
Millions of dollars							
Central American Isthmus	6 829,5	7 001,3	7 173,9	7 301,5	7 712,0	7 505,8	7 125,6
Central America	6 822,9	6 994,6	7 168,3	7 296,8	7 708,1	7 501,8	7 122,4
Costa Rica	843,8	790,4	745,0	603,0	526,4	491,5	474,9
El Salvador	1 640,7	1 670,9	1 712,3	1 758,6	1 760,0	1 657,6	1 443,3
Guatemala	1 530,5	1 657,7	1 709,7	1 814,9	2 007,2	1 872,2	1 722,7
Honduras	2 462,0	2 485,1	2 555,5	2 622,1	2 800,4	2 744,4	2 577,7
Nicaragua	345,8	390,6	445,8	498,2	614,1	736,1	903,7
Panama	6,6	6,7	5,5	4,7	3,8	4,0	3,2
Growth rates							
Central American Isthmus	13,7	2,5	2,5	1,8	5,6	-2,7	-5,1
Central America	13,8	2,5	2,5	1,8	5,6	-2,7	-5,1
Costa Rica	0,6	-6,3	-5,7	-19,1	-12,7	-6,6	-3,4
El Salvador	20,6	1,8	2,5	2,7	0,1	-5,8	-12,9
Guatemala	20,5	8,3	3,1	6,2	10,6	-6,7	-8,0
Honduras	9,8	0,9	2,8	2,6	6,8	-2,0	-6,1
Nicaragua	21,8	12,9	14,1	11,8	23,3	19,9	22,8
Panama	-45,2	1,4	-18,0	-14,5	-18,6	4,5	-19,4

Source: ECLAC, based on official figures from the National Trade Data Bank, US Department of Commerce.

a/ Refers to chapters 61 and 62 of the Harmonized System, which includes clothing items and accessories.

Table A-11

CENTRAL AMERICAN ISTHMUS: FOREIGN TRADE OF FOB GOODS WITH MEXICO, 2003-2006

	Millions of dollars				Growth rates			
	2003	2004	2005 a/	2006 a/	2003	2004	2005 a/	2006 a/
FOB Exports								
Central American Isthmus	902,5	1 294,6	1 505,1	1 461,7	37,3	43,4	16,3	-2,9
Central America	864,7	1 250,7	1 426,7	1 404,3	39,0	44,6	14,1	-1,6
Costa Rica	584,2	852,3	883,2	789,1	40,3	45,9	3,6	-10,7
El Salvador	44,3	50,2	58,5	58,6	21,7	13,2	16,6	0,1
Guatemala	151,1	230,0	221,8	355,6	29,5	52,3	-3,6	60,3
Honduras	47,0	65,8	104,5	122,9	85,0	40,1	58,7	17,6
Nicaragua	38,1	52,4	158,6	78,1	40,5	37,7	202,7	-50,8
Panama	37,8	43,9	78,4	57,4	7,1	16,1	78,8	-26,8
FOB Imports								
Central American Isthmus	1 840,0	2 025,4	2 783,1	3 328,7	4,2	10,1	37,4	19,6
Central America	1 520,2	1 709,6	2 319,7	2 761,1	4,0	12,5	35,7	19,0
Costa Rica	352,5	387,3	420,7	521,8	-5,5	9,9	8,6	24,0
El Salvador	286,4	317,2	471,6	496,9	-1,8	10,8	48,7	5,4
Guatemala	590,1	672,5	863,7	935,4	7,6	14,0	28,4	8,3
Honduras	160,6	182,1	239,6	284,5	3,2	13,4	31,6	18,7
Nicaragua	130,7	150,6	324,1	522,4	40,6	15,2	115,2	61,2
Panama	319,8	315,8	463,3	567,7	5,2	-1,3	46,7	22,5
Trade balance								
Central American Isthmus	-937,6	-730,8	-1 278,0	-1 867,0	15,4	22,1	-74,9	-46,1
Central America	-655,6	-458,9	-893,1	-1 356,8	21,9	30,0	-94,6	-51,9
Costa Rica	231,7	465,0	462,6	267,3	434,1	100,7	-0,5	-42,2
El Salvador	-242,0	-267,1	-413,1	-438,3	5,2	-10,3	-54,7	-6,1
Guatemala	-439,0	-442,5	-641,9	-579,9	-1,7	-0,8	-45,1	9,7
Honduras	-113,6	-116,2	-135,1	-161,6	12,8	-2,3	-16,3	-19,6
Nicaragua	-92,6	-98,2	-165,5	-444,3	-40,7	-6,0	-68,6	-168,4
Panama	-282,0	-271,9	-384,9	-510,2	-5,0	3,6	-41,6	-32,6

Source: ECLAC, based on official figures from Mexico's Instituto Nacional de Estadística, Geografía e Informática (INEGI).

a/ Preliminary figures.

Table A-12

CENTRAL AMERICAN ISTHMUS: CENTRAL GOVERNMENT INDICATORS, 2000-2006

(Percentages)

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Total revenues/GDP	15,2	15,4	15,7	16,0	16,0	16,1	17,4
Costa Rica	12,5	13,4	13,3	13,9	13,6	13,8	14,5
El Salvador	12,1	11,9	12,5	13,2	13,2	13,6	14,5
Guatemala	11,0	12,4	12,8	12,5	12,3	12,0	12,7
Honduras	18,7	19,9	19,4	19,6	20,3	20,5	21,2
Nicaragua	18,8	17,0	19,5	21,2	22,0	21,5	22,7
Panama	18,2	17,7	16,8	15,4	14,4	15,1	18,6
Total expenditures/GDP	18,2	19,2	18,6	19,3	18,5	18,2	18,1
Costa Rica	15,5	16,4	17,6	16,8	16,3	15,9	15,5
El Salvador	14,3	15,5	15,7	15,9	14,4	14,6	14,9
Guatemala	12,8	14,5	13,9	15,1	13,4	13,7	14,6
Honduras	23,7	25,2	24,7	25,8	23,7	23,1	22,5
Nicaragua	23,6	24,1	20,8	23,2	23,5	23,3	22,7
Panama	19,3	19,4	18,8	19,2	19,8	18,3	18,4
Fiscal deficit/GDP c/	- 3,0	- 3,8	- 2,8	- 3,4	- 2,5	- 2,1	- 0,8
Costa Rica	-3,0	-2,9	-4,3	-2,9	-2,7	-2,1	-1,1
El Salvador	-2,3	-3,6	-3,1	-2,7	-1,1	-1,0	-0,4
Guatemala	-1,8	-2,1	-1,1	-2,6	-1,1	-1,7	-1,9
Honduras	-4,9	-5,3	-5,3	-6,2	-3,4	-2,6	-1,3
Nicaragua	-4,7	-7,1	-1,3	-2,0	-1,5	-1,9	0,0
Panama	-1,1	-1,7	-1,9	-3,8	-5,4	-3,2	0,2

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

c/ Simple average.

Table A-13

CENTRAL AMERICAN ISTHMUS: CREDIT INDICATORS, a/ 2000-2006

(Real growth rates)

	2000	2001	2002	2003	2004	2005 b/	2006 c/
Internal credit							
Costa Rica	15,5	4,1	9,0	5,2	18,7	-8,4	7,1
El Salvador	4,5	0,9	-5,6	-2,5	-1,8	0,7	5,9
Guatemala	10,3	-1,3	6,9	1,7	-3,1	13,7	17,0
Honduras	12,4	3,5	-2,3	23,3	-4,2	12,8	20,0
Nicaragua	5,4	13,2	0,6	5,9	-1,1	-3,7	-16,1
Panama	3,5	3,6	-5,7	0,9	9,3	8,4	9,8
Private sector loans							
Costa Rica	17,8	11,0	10,7	9,1	3,9	13,0	16,7
El Salvador	0,6	-4,1	5,0	4,3	0,2	3,3	5,7
Guatemala	9,3	4,7	1,0	2,9	2,7	11,8	21,8
Honduras	3,1	3,1	-0,5	5,1	5,8	9,7	21,5
Nicaragua	20,4	-47,3	10,9	21,1	16,7	20,4	18,9
Panamá	5,5	3,9	-4,6	1,7	7,1	9,6	10,7

Source: ECLAC and Central American Monetary Council.

a/ Based on end-of-year nominal wages.

b/ Preliminary figures.

c/ Estimated figures.

Table A-14

CENTRAL AMERICAN ISTHMUS: NOMINAL INTEREST RATES, 2005-2006

(Percentages)

	Costa Rica a/		El Salvador b/		Guatemala c/		Honduras d/		Nicaragua e/		Panama f/	
	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability	Asset	Liability
2005												
January	21,28	14,50	6,85	3,23	13,52	4,56	19,36	8,11	14,03	4,28	8,41	2,16
February	21,47	14,75	6,79	3,24	13,52	4,58	19,33	8,10	12,49	5,23	8,51	2,19
March	21,69	15,00	6,95	3,24	13,49	4,53	19,06	8,08	12,35	4,20	8,72	2,35
April	21,84	15,00	6,53	3,43	13,07	4,57	18,94	8,09	13,60	4,33	8,34	2,35
May	22,18	15,75	6,80	3,38	13,04	4,59	19,05	8,12	13,27	4,70	8,32	2,73
June	22,60	15,75	6,98	3,44	13,02	4,62	19,07	8,05	11,94	4,84	8,37	2,72
July	22,52	15,50	6,90	3,40	12,90	4,58	18,80	8,19	11,65	4,61	8,04	2,71
August	22,26	15,50	7,03	3,38	12,88	4,58	18,49	8,14	12,72	4,29	8,07	2,71
September	22,07	15,25	6,72	3,42	12,78	4,60	18,48	8,15	10,63	4,99	8,07	2,71
October	22,00	15,25	6,87	3,41	12,72	4,58	18,39	8,17	9,96	4,55	8,05	2,67
November	22,04	15,25	6,94	3,65	12,78	4,64	18,64	8,12	13,20	4,88	8,07	2,72
December	22,10	15,25	7,03	4,02	12,67	4,62	18,36	8,05	9,37	5,34	7,99	2,73
2006												
January	21,99	15,25	7,79	4,08	12,72	4,62	18,39	8,06	12,73	4,51	8,21	2,73
February	22,02	15,25	7,53	3,97	12,74	4,65	18,42	8,05	12,44	5,14	8,20	2,74
March	22,11	15,25	7,43	4,12	12,76	4,65	18,22	8,01	12,52	4,85	8,24	2,68
April	22,04	15,25	7,35	4,02	12,74	4,69	18,01	7,61	8,20	5,36	8,11	2,97
May	21,53	13,75	7,63	4,13	12,72	4,70	17,65	7,35	8,50	5,37	8,08	3,02
June	20,72	13,50	7,15	4,39	12,72	4,70	17,60	6,82	11,47	5,30	8,01	3,33
July	20,89	13,75	7,38	4,53	12,69	4,69	17,25	6,64	12,31	4,98	8,04	3,52
August	20,75	13,75	7,50	4,59	12,69	4,70	17,07	6,31	11,97	5,55	8,02	3,54
September	20,56	13,50	7,61	4,58	12,70	4,72	16,92	6,18	12,59	5,98	8,01	3,73
October	20,29	13,25	7,63	4,63	12,91	4,81	16,72	5,94	12,35	5,20	8,11	3,74
November	18,09	11,25	7,69	4,74	12,88	4,84	16,39	5,80	12,20	5,54	8,07	4,00
December	15,85	11,25	7,61	4,86	12,88	4,84	16,60	5,75	11,64	5,62	8,05	4,14

Source: ECLAC, based on official figures.

a/ Deposit basic rate, estimated by Costa Rica's Central Bank, lending rate to industry in national currency.

b/ Monthly adjusted average banking interest rate lending rates on credits of up to one year, deposit rates on credits of up to 180 days.

c/ Adjusted average of the banking system.

d/ National financial-system weighted average: lending rate; deposit rates as an average of savings rates, time limited deposits and certificates of deposits.

e/ Average interest-rate; short-term lending rate: three-month deposit rate.

f/ Average interest-rate; one-year lending rate; three-month deposit rate.

Table A-15

CENTRAL AMERICAN ISTHMUS: PRICE INDICATORS, 2000-2006

(Growth rates)

	2000	2001	2002	2003	2004	2005 a/	2006 b/
Consumer price index (December to December)							
Central American Isthmus	5,9	6,2	5,7	5,5	8,1	8,1	6,0
Central America	5,8	6,2	5,4	5,3	7,8	7,5	5,6
Costa Rica	10,2	11,0	9,7	9,9	13,1	14,1	9,4
El Salvador	4,3	1,4	2,8	2,5	5,4	4,3	4,9
Guatemala	5,1	8,9	6,3	5,9	9,2	8,6	5,8
Honduras	10,1	8,8	8,1	6,8	9,2	7,7	5,3
Nicaragua	6,5	4,8	3,9	6,5	9,3	9,6	10,6
Panama	0,7	0,0	1,8	1,7	1,6	3,4	2,2
Consumer price index (annual average)							
Central American Isthmus	6,2	6,5	5,7	5,3	6,9	8,3	6,0
Central America	5,9	6,4	5,6	5,0	6,9	7,8	5,6
Costa Rica	11,0	11,3	9,2	9,4	12,3	13,8	9,0
El Salvador	2,3	3,8	1,9	2,1	4,5	4,7	4,0
Guatemala	6,0	7,3	8,1	5,6	7,6	9,1	6,6
Honduras	11,0	9,7	7,7	7,7	8,1	8,8	5,6
Nicaragua	7,1	6,0	3,8	5,3	8,5	9,6	9,1
Panama	1,5	0,3	1,0	1,4	0,5	2,9	2,5
Food price index (December to December)							
Costa Rica	9,5	11,5	10,2	10,0	14,6	16,5	...
El Salvador	2,5	2,7	0,8	4,3	6,9	4,7	5,3
Guatemala	4,5	13,9	6,2	7,1	12,7	12,4	6,5
Honduras	8,7	8,0	2,3	5,0	9,3	6,7	5,6
Nicaragua	6,7	6,4	1,2	7,1	11,2	10,5	11,8
Panama	2,6	-3,6	-0,4	2,4	2,7	4,0	2,0
Food price index (annual average)							
Costa Rica	9,8	10,7	10,1	9,4	13,7	16,4	...
El Salvador	0,1	4,1	1,1	1,6	6,2	6,0	3,1
Guatemala	4,3	10,0	10,5	5,7	10,3	13,2	7,1
Honduras	7,6	8,7	3,9	3,6	6,8	10,0	4,2
Nicaragua	5,0	8,6	2,9	3,7	10,1	11,4	9,7
Panama	0,5	-0,4	-0,7	1,3	1,3	4,3	1,3

Source: ECLAC, based on official figures.

a/ Preliminary figures.

b/ Estimated figures.

Table A-16

CENTRAL AMERICAN ISTHMUS: NOMINAL AND REAL EXCHANGE RATE, 2000-2006

(National monetary unit with respect to dollar) a/

	2000	2001	2002	2003	2004	2005 b/	2006 c/
Nominal exchange rate							
Costa Rica	308,19	328,87	359,82	398,66	437,94	477,79	511,30
El Salvador	8,75	8,75	8,75	8,75	8,75	8,75	8,75
Guatemala	7,76	7,85	7,81	7,93	7,94	7,62	7,59
Honduras	15,01	15,65	16,61	17,54	18,41	19,00	19,03
Nicaragua	12,68	13,44	14,25	15,11	15,94	16,73	17,57
Panama	1,00	1,00	1,00	1,00	1,00	1,00	1,00
Real exchange rate, 1995 constant prices							
Costa Rica	191,94	189,30	192,73	199,53	200,38	198,63	201,26
El Salvador	8,18	8,10	8,08	8,09	7,96	7,86	7,80
Guatemala	6,08	5,90	5,51	5,42	5,18	4,71	4,55
Honduras	8,09	7,91	7,91	7,94	7,91	7,76	7,60
Nicaragua	8,73	8,98	9,32	9,60	9,58	9,49	9,43
Panama	1,07	1,09	1,10	1,11	1,13	1,14	1,15
Real exchange rate index at 2000 prices							
Costa Rica	100,00	98,63	100,41	103,96	104,40	103,49	104,86
El Salvador	100,00	99,11	98,84	98,98	97,30	96,09	95,34
Guatemala	100,00	97,00	90,68	89,14	85,16	77,53	74,80
Honduras	100,00	97,74	97,86	98,16	97,83	95,92	93,93
Nicaragua	100,00	102,83	106,73	109,88	109,73	108,69	107,94
Panama	100,00	102,51	103,09	103,96	106,24	106,79	107,59

Source: ECLAC, based on official figures.

a/ For Costa Rica and El Salvador, colons; Guatemala, quetzals; Honduras, lempiras; Nicaragua, cordobas, and Panama, balboas.

b/ Preliminary figures.

c/ Estimated figures.